## FINANCIAL NEWS

# Hungry Tiger profits rise 25% for 3rd quarter

**By Richard Martin**

VAN NUYS, Calif.—Hungry Tiger's profits advanced 25% for the 16-week third quarter ended June 4, compared to the same period last year.

Net income for the 16 weeks was $662,000 on sales of $17.7 million, compared with $528,000 on $15.9 million in sales for 1981's third quarter. For the 40 weeks ended June 4, sales were up 11% to $42 million; profits were $1.4 million vs. $1.2 million last year.

Hungry Tiger has more than doubled the number of restaurants it operates in the last three years. Its latest opens this month—number 35 in a group which includes two Breakers Seafood Co. restaurants and three operations taken over at the Los Angeles County Music Center.

As one of the fastest-growing seafood dinnerhouse chains in the West and Southwest, Hungry Tiger's operating profits have risen an average of 37% a year on an average 23% increase in sales, compounded annually, over the last five years. Since verging on bankruptcy in 1974, earnings have risen in each successive year under present management, now headed by president and ceo Alan Redhead. He had been senior vp and chief operating officer prior to becoming president in 1980.

Viewed in terms of its return on equity performance (26.5% last year), Hungry Tiger may be one of the more profitable restaurant companies operating during the last five years.

In response to the overambitious building plans of former management—largely responsible for the losses of the early 70's—Redhead and his team slammed on the brakes and tried a different approach. The diverse look of units in the Hungry Tiger chain comes from their acquisition as failing operations. Thus, seating capacity varies from location to location, ranging from 150 to 350 per unit, and the company benefits from favorable lease arrangements and reduced capital expenditures.

With only two exceptions, every Hungry Tiger opened in the past seven years is situated in a pre-existing structure. The company has no intention of varying from this course, according to Redhead.

Management has its eye on new horizons—catering, the service of tourist-group contracts and wholesale and retail sales of fresh seafood. The company's catering operations are developing out of its Music Center businesses. Marketing efforts are being made to sign on with tour wholesalers handling Japanese and Mexican tourists. Expansion this year of the Hungry Tiger commissary may turn it into a base for fresh seafood retailing.

Another sign of the company's willingness to diversify was the takeover of the 150-seat cafe at the J. Paul Getty Museum in Malibu last year. Expansion plans for the company's restaurant operations call for the opening of two more Breakers Seafood Co. outlets and four more Hungry Tigers in the next fiscal year.

Breakers, with an even stronger emphasis on seafood, came into being last year with prices in the $5 to $9 range, compared with Hungry Tiger's $8-to-$17 price range.

The company now finds itself positioned to continue its earnings and sales performance, with food costs stabilizing and the effects of recent television advertising and discount pricing of nightly specials beginning to boost customer counts.

Menu price hikes made late last year in anticipation of increasing food costs may not have been necessary and the company estimates it may finish up the fiscal year with an average check about 6% higher than last year.

## Food-service chain stock analysis table

| Name | Symbol | STOCK PRICE | | | | | | | TREND TO MARKET | | | | EARNINGS/SHARE | | | | | P/E | DIVIDENDS | | | FINANCIAL POSITION | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Two Weeks Ended July 16 | | | | | | | Price Trend (% per day) | | Volume Trend (% per day) | | Last Fiscal Year | Latest 12 Months vs Preceding 12 Months Change | | 5-Year Annual Growth Rate | Profit Margin | Latest P/E Ratio | Indicated Dvd. Rate | | Last X-Dvd. Date | Last Fiscal Year | | Current Ratio | Last Fiscal Year (Per Share) | | Last Balance Sheet Date |
| | | | | | Change | | 52-Week | | | | | | | | | | | | | | | | | | | | |
| | | High | Low | Close | Amt. | Pct. | High | Low | Last 30 Days | Last 5 Days | Last 30 Days | Last 5 Days | | Amt. | Pct. | | | | Amt. | Yield | | Revenue | Earnings | | Long Term Debt | Common Stock Equity | |
| — | — | $ | $ | $ | $ | % | $ | $ | % | % | % | % | $ | $ | % | % | % | — | $ | % | — | $ Mil. | $ Mil. | — | $ | $ | — |
| Aca Los A Res | ALAR | 3.88 | 3.75 | 3.75 | -.13 | -3.23 | 9.88 | 3.50 | -.50 | -.41 | -2.30 | -3.64 | .47 | -.48 S | -109.0 | -5.0 | 4.3 | NE | .00 | .0 | 01-06-81 | 27.7 | 1.2 | 2.4 | 5.7 | 3 | 1081 |
| Am Motor Inns | INN | 20.13 | 18.38 | 19.25 | .50 | 2.67 | 20.88 | 10.00 | .07 | .24 | -.55 | -8.63 | 1.66 | .41 N | 26.2 | 34.0 | 6.3 | 9.8 | .22 | 1.1 | 01-26-82 | 142.3 | 8.9 | 1.5 | 15.6 | 11 | 0781 |
| ARA Services | ARA | 28.00 | 27.00 | 27.50 | .00 | .00 | 33.13 | 23.50 | .10 | -.82 | -4.29 | -28.83 | 4.00 | -1.13 S | -22.7 | -1.0 | 1.5 | 7.2 | 2.00 | 7.3 | 05-25-82 | 2915.9 | 45.1 | 1.2 | 21.0 | 44 | 0981 |
| Assoc Hosts | AHST | 5.75 | 5.50 | 5.75 | .25 | 4.55 | 7.25 | 4.88 | .42 | -.27 | 1.47 | 21.30 | .66 | .13 S | 22.0 | -8.0 | 2.6 | 8.0 | .12 | 2.1 | 06-08-82 | 79.9 | 2.1 | 1.5 | 6.4 | 7 | 0981 |
| Beefstk Char | BSCC | 5.50 | 5.38 | 5.38 | -.13 | -2.27 | 6.50 | 2.88 | .05 | -1.02 | -1.93 | -32.24 | .62 | .11 S | 18.9 | 32.0 | 2.4 | 7.8 | .00 | .0 | 00-00-00 | 86.2 | 2.1 | 1.2 | 1.5 | 3 | 1081 |
| Bob Evans Farms | BOBE | 24.50 | 23.75 | 24.25 | 1.75 | 7.78 | 27.00 | 17.75 | .39 | -.71 | -3.18 | -30.32 | 1.60 | .20 F | 14.2 | 25.0 | 7.9 | 15.2 | .40 | 1.6 | 05-10-82 | 173.4 | 13.7 | 1.7 | .0 | 8 | 0482 |
| Bonanza Intl Inc | BNZA | 2.38 | 1.50 | 2.38 | .75 | 46.15 | 3.88 | 1.06 | -.47 | 10.33 | 2.78 | 22.73 | -3.33 | -3.32 Q | NC | -67.0 | -61.8 | NE | .00 | .0 | 00-00-00 | 24.1 | -14.9 | 1.2 | 11.2 | 2 | 1281 |
| Brock Hotel Cp | BHC | 13.63 | 12.13 | 12.88 | -.38 | -2.83 | 17.50 | 9.88 | -.64 | -1.55 | -2.84 | 25.87 | .59 | .33 Q | 103.1 | 24.0 | 4.3 | 19.8 | .10 | .8 | 06-29-82 | 165.1 | 7.1 | 1.2 | 11.0 | 4 | 1281 |
| Calny Food | CLNY | 8.50 | 8.25 | 8.25 | .25 | 3.13 | 9.50 | 7.16 | .29 | -1.18 | -6.19 | 22.22 | 1.11 | .32 Q | 37.2 | 7.0 | 3.2 | 7.0 | .20 | 2.4 | 04-29-82 | 37.0 | 1.2 | .6 | 1.5 | 2 | 0282 |
| Carrols Develop | CRL | 5.88 | 5.25 | 5.50 | -.25 | -4.35 | 6.38 | 3.97 | .27 | -1.98 | -.02 | 13.24 | .86 | .72 N | 163.6 | 35.0 | 2.4 | 4.7 | .09 | 1.6 | 12-24-81 | 75.6 | 1.8 | .7 | 10.1 | 5 | 0581 |
| Chart House | CHHO | 20.88 | 17.88 | 20.88 | 2.38 | 12.84 | 22.25 | 15.25 | -.08 | 2.59 | 2.55 | 7.31 | 2.03 | .27 Q | 15.2 | 14.0 | 5.0 | 10.2 | .60 | 2.9 | 03-22-82 | 353.9 | 17.7 | .9 | 14.5 | 10 | 1281 |
| Chi-Chis | CHIC | 18.13 | 16.50 | 17.88 | 1.25 | 7.52 | 18.13 | 10.09 | .45 | -.83 | -2.50 | 2.36 | .31 | .22 N | 91.6 | 35.0 | 14.1 | 38.9 | .00 | .0 | 06-28-82 | 14.9 | 2.1 | 3.1 | 1.1 | 1 | 0481 |
| Ch Full O Nut | CHF | 15.13 | 13.00 | 14.88 | 1.75 | 13.33 | 15.13 | 9.00 | .60 | -.23 | 6.29 | -17.23 | .66 | -.44 N | -51.1 | 20.0 | 2.7 | 35.4 | .40 | 2.7 | 07-01-82 | 118.7 | 3.2 | 3.4 | .8 | 5 | 0781 |
| Churchs Fr Ch | CHU | 27.88 | 25.50 | 26.88 | 1.25 | 4.88 | 33.50 | 25.00 | -.28 | -.68 | .82 | -11.55 | 3.52 | .15 S | 4.6 | 17.0 | 10.8 | 7.9 | 1.00 | 3.7 | 07-26-82 | 412.1 | 44.6 | 1.9 | 1.0 | 15 | 1281 |
| Cindys Inc | CNDYC | 2.75 | 2.75 | 2.75 | .00 | .00 | 3.63 | 2.50 | -.01 | -.23 | .49 | 3.37 | -.06 | 1.37 F | NE | NE | -.6 | NE | .00 | .0 | 00-00-00 | 17.0 | -.1 | .0 | 7.2 | 0 | 1281 |
| Collins Foods | CF | 18.88 | 16.00 | 18.50 | 2.25 | 13.85 | 18.88 | 10.31 | .66 | .07 | 1.03 | -22.05 | 2.28 | .69 F | 43.3 | 13.0 | 3.2 | 8.1 | .24 | 1.3 | 06-23-82 | 265.2 | 7.5 | 1.4 | 10.6 | 13 | 0481 |
| Consul Corp | CNSL | 6.88 | 6.38 | 6.88 | .50 | 7.84 | 9.25 | 5.25 | .26 | -.05 | 2.55 | 28.10 | -.08 | .12 S | NC | NE | -1.5 | 57.3 | .00 | .0 | 00-00-00 | 6.8 | -.1 | .8 | .6 | 1 | 0581 |
| Cracker Barrel | CBRL | 9.75 | 9.50 | 9.75 | .25 | 2.63 | 11.00 | 7.25 | -.26 | -.25 | -2.93 | 14.36 | 1.00 | 1.01 S | NC | 21.0 | 3.2 | 9.7 | .00 | .0 | 00-00-00 | 28.5 | .9 | 1.0 | 5.4 | 3 | 0781 |
| Dennys Inc | DEN | 28.38 | 25.13 | 28.00 | 3.25 | 13.13 | 28.38 | 14.75 | .61 | -.42 | 2.82 | -16.80 | 1.97 | .77 N | 49.6 | 6.0 | 3.2 | 12.1 | .64 | 2.3 | 06-04-82 | 840.7 | 26.9 | 1.5 | 16.0 | 13 | 0681 |
| Dunkin Donuts | DUNK | 16.88 | 14.88 | 16.88 | 1.50 | 9.76 | 16.88 | 11.13 | .23 | .91 | .27 | .67 | 1.82 | .26 S | 15.2 | 19.0 | 8.3 | 8.6 | .36 | 2.1 | 08-09-82 | 68.7 | 5.7 | 1.3 | 11.4 | 11 | 1081 |
| Frischs | FRS | 11.13 | 10.00 | 11.00 | .50 | 4.76 | 11.13 | 5.78 | .86 | .75 | 4.59 | 37.23 | 1.39 | .73 N | 63.4 | 14.0 | 3.0 | 5.9 | .38 | 3.5 | 06-29-82 | 97.0 | 2.9 | 1.2 | 7.2 | 13 | 0581 |
| Hambrg Hamlet | HAMB | 7.50 | 6.25 | 6.25 | -1.25 | -16.67 | 8.25 | 5.00 | -.10 | -3.21 | -6.76 | .00 | 1.35 | 1.08 F | 400.0 | -13.0 | 3.2 | 4.6 | .00 | .0 | 00-00-00 | 28.4 | .2 | .9 | 20.9 | 12 | 0381 |
| Hardwicke | HAWK | 1.50 | 1.38 | 1.38 | -.13 | -8.33 | 5.63 | 1.38 | -1.35 | -3.26 | -6.14 | .00 | -2.22 | -3.88 S | NC | -62.0 | -11.4 | NE | .00 | .0 | 00-00-00 | 30.6 | -3.5 | 1.4 | 18.4 | 8 | 0981 |
| Hilton Hotels | HLT | 32.63 | 30.25 | 32.38 | .25 | .78 | 45.75 | 29.75 | -.03 | -.12 | .57 | -26.42 | 4.22 | -.04 Q | -.9 | 25.0 | 20.9 | 8.1 | 1.80 | 5.6 | 08-30-82 | 539.3 | 112.6 | 2.0 | 4.5 | 20 | 1281 |
| Holiday Inns | HIA | 28.50 | 25.88 | 28.13 | 1.38 | 5.14 | 30.38 | 21.88 | -.01 | .91 | -1.78 | 20.88 | 3.66 | 1.12 Q | 42.4 | 26.0 | 7.8 | 7.5 | .80 | 2.8 | 06-10-82 | 1765.1 | 137.4 | .8 | 21.0 | 25 | 1281 |
| Holiday Inns A | HIA A | 39.00 | 39.00 | 39.00 | -1.75 | -4.29 | 44.50 | 33.00 | .03 | -.32 | -7.75 | .00 | NA | NA | NA | NA | NA | NA | .00 | .0 | 00-00-00 | NA | NA | NA | NA | NA | NA |
| Horn & Hardart | HOR | 19.25 | 16.00 | 18.88 | 2.63 | 16.15 | 19.25 | 7.28 | .41 | .80 | -2.89 | -36.73 | 1.05 | .13 Q | 14.6 | 30.0 | 2.7 | 18.5 | .00 | .0 | 01-11-82 | 166.1 | 4.5 | 1.7 | 12.6 | 7 | 1281 |
| Hungry Tiger | HTIG | 8.50 | 8.50 | 8.50 | .00 | .00 | 9.19 | 6.00 | .67 | -.29 | -.89 | 13.10 | .92 | .18 N | 20.4 | 41.0 | 3.2 | 8.0 | .00 | .0 | 08-24-81 | 49.9 | 1.6 | .8 | 5.8 | 4 | 0881 |
| Imperial Grp | IMT | 1.88 | 1.69 | 1.75 | -.06 | -3.45 | 1.88 | 1.06 | .32 | .18 | .92 | 54.55 | .24 | .00 F | .0 | 2.0 | 2.0 | 7.3 | .14 | 8.0 | 02-24-82 | 8462.9 | 171.0 | 1.1 | .7 | 2 | 1081 |
| Intl Dairy Queen | INDQ | 12.75 | 12.25 | 12.75 | .50 | 4.08 | 13.00 | 9.25 | .43 | .67 | -.55 | 28.77 | 1.72 | .34 S | 22.5 | 38.0 | 6.1 | 6.9 | .00 | .0 | 00-00-00 | 91.3 | 5.6 | 1.1 | 9.7 | 6 | 1181 |
| Int King Tab | IKNG | 3.63 | 3.50 | 3.63 | .25 | 7.41 | 3.63 | 1.75 | .81 | -.43 | 3.40 | -21.94 | -.65 | 1.06 N | NE | -36.0 | -3.1 | 19.1 | .00 | .0 | 10-09-79 | 32.0 | -1.0 | .3 | 5.4 | 3 | 0681 |
| JBs Rest | JBBB | 7.00 | 6.50 | 7.00 | .38 | 5.66 | 7.25 | 2.88 | .45 | .09 | -1.00 | -4.81 | .63 | .31 S | 75.6 | -1.0 | 3.0 | 9.7 | .16 | 2.3 | 05-10-82 | 36.4 | 1.1 | .9 | 5.2 | 5 | 0981 |
| Jerrico Inc | JERR | 20.50 | 19.38 | 20.50 | .00 | .00 | 27.63 | 15.63 | .04 | -.05 | -1.12 | 54.15 | 1.70 | .27 N | 17.1 | 22.0 | 5.6 | 11.1 | .12 | .6 | 05-10-82 | 378.2 | 21.0 | 1.1 | 3.7 | 10 | 0681 |
| Kapok Tr Inns | KTI | 4.00 | 3.63 | 3.88 | -.25 | -6.06 | 4.50 | 3.50 | .05 | -.73 | -3.69 | -23.47 | -.24 | -.46 S | -575.0 | -33.0 | -2.9 | NE | .00 | .0 | 00-00-00 | 13.8 | -.4 | 3.1 | 1.9 | 6 | 0981 |
| Kelly Johnston | KEJO | 19.25 | 19.00 | 19.00 | .00 | .00 | 19.25 | 10.75 | .29 | -.44 | -1.18 | -11.29 | .89 | .31 F | 53.4 | 126.0 | 8.1 | 21.3 | .00 | .0 | 00-00-00 | 11.9 | .7 | .4 | .8 | 1 | 0381 |
| Karcher Carl | CARL | 14.63 | 13.25 | 14.38 | 1.13 | 8.49 | 14.63 | 8.88 | .57 | .06 | .46 | -29.96 | 1.51 | 1.68 Q | NC | 17.0 | 3.4 | 8.6 | .00 | .0 | 00-00-00 | 200.6 | 6.9 | 1.9 | 6.4 | 8 | 0182 |
| Lubys Cafe | LUB | 29.88 | 27.75 | 29.25 | 1.38 | 4.93 | 32.00 | 23.50 | .34 | -.03 | -1.34 | 23.15 | 1.45 | .25 N | 18.1 | 23.0 | 9.1 | 17.9 | .60 | 2.1 | 09-03-82 | 108.2 | 9.8 | 1.1 | .9 | 6 | 0881 |
| Marcus Corp | MRCS | 6.63 | 6.13 | 6.63 | .50 | 8.16 | 6.75 | 5.00 | .42 | 1.09 | 4.05 | -13.77 | 1.15 | .04 N | 3.5 | 7.0 | 5.8 | 5.7 | .00 | .0 | 08-24-81 | 105.3 | 6.1 | .8 | 2.9 | 9 | 0581 |
| Marriott Corp | MHS | 37.00 | 32.00 | 36.63 | 3.25 | 9.74 | 41.13 | 31.63 | -.16 | 1.61 | 3.29 | -22.70 | 3.20 | .37 S | 12.6 | 30.0 | 4.3 | 11.1 | .30 | .8 | 06-21-82 | 2000.3 | 86.1 | .9 | 23.2 | 16 | 1281 |
| McDonalds Cp | MCD | 77.25 | 70.25 | 77.00 | 5.88 | 8.26 | 77.25 | 56.75 | .46 | .36 | 1.10 | 1.15 | 6.54 | 1.01 Q | 17.6 | 18.0 | 10.7 | 11.5 | 1.20 | 1.6 | 05-24-82 | 2477.2 | 264.8 | .5 | 23.0 | 34 | 1281 |
| Morrison Inc | MORR | 12.25 | 11.25 | 12.13 | .88 | 7.78 | 12.25 | 8.13 | .63 | 1.06 | 2.25 | 1.35 | 1.16 | .21 F | 22.1 | 8.0 | 4.1 | 10.5 | .36 | 3.0 | 07-12-82 | 319.8 | 12.4 | 1.3 | 2.7 | 7 | 0581 |
| Mr Steak | MSST | 2.13 | 2.00 | 2.00 | -.13 | -5.88 | 4.13 | 2.00 | -.35 | -.31 | -3.63 | -8.33 | .22 | -.25 S | -500.0 | -22.0 | .5 | NE | .00 | .0 | 05-29-80 | 55.7 | .3 | 1.4 | 3.4 | 5 | 0981 |
| Nathans Famous | NATH | 1.06 | 1.00 | 1.00 | -.06 | -5.88 | 1.88 | .63 | .10 | -.31 | -4.40 | -50.00 | -.87 | -.42 N | NE | NE | -7.9 | NE | .00 | .0 | 00-00-00 | 21.5 | -1.7 | .4 | .2 | 2 | 0381 |
| Oakbrook Cons | OKCO | 9.25 | 9.25 | 9.25 | .00 | .00 | 11.50 | 9.00 | .05 | -.30 | -6.25 | .00 | 1.74 | -.08 S | -5.5 | 9.0 | 1.3 | 6.9 | .32 | 3.5 | 03-11-82 | 133.4 | 1.7 | .8 | 5.6 | 13 | 0981 |
| Orange-co | OJ | 6.50 | 4.63 | 4.75 | -1.75 | -26.92 | 11.38 | 4.63 | -.53 | -6.27 | 1.13 | 59.80 | 1.01 | -.81 N | -84.3 | 24.0 | 5.4 | 31.7 | .20 | 4.2 | 02-22-82 | 76.2 | 4.1 | 1.9 | 10.2 | 7 | 0881 |
| Piccadilly Caf | PICC | 15.88 | 15.25 | 15.88 | .50 | 3.25 | 18.13 | 13.50 | .17 | .31 | -2.28 | -.38 | 1.30 | .14 N | 10.7 | 15.0 | 6.1 | 11.0 | .56 | 3.5 | 06-03-82 | 127.2 | 7.8 | 1.7 | .0 | 6 | 0681 |
| Pizza Inn | PZA | 5.63 | 4.88 | 5.38 | .38 * | 7.50 | 9.88 | 4.63 | .37 | -.81 | -.51 | .57 | .50 | -.02 Q | -3.5 | -6.0 | 1.0 | 9.8 | .00 | .0 | 00-00-00 | 133.5 | 1.4 | .9 | 12.9 | 7 | 1281 |
| Pizza Time Thea | CHKY | 28.75 | 27.00 | 28.00 | -.25 | -.89 | 32.50 | 18.00 | -.07 | -1.29 | -1.12 | -18.65 | .58 | .77 Q | 540.0 | 42.0 | 7.2 | 34.1 | .00 | .0 | 00-00-00 | 11.4 | .1 | 1.3 | .4 | 1 | 1280 |
| Ponderosa Sys | PON | 19.25 | 17.13 | 19.13 | 1.50 | 8.51 | 19.25 | 11.75 | 1.01 | -.38 | 1.96 | 15.44 | 2.01 | 1.13 Q | 137.8 | -10.0 | 2.4 | 9.8 | .40 | 2.1 | 06-11-82 | 353.9 | 8.5 | 1.0 | 20.0 | 17 | 0282 |
| Ramada Inns | RAM | 5.00 | 4.50 | 4.88 | .25 | 5.41 | 9.13 | 4.25 | -.10 | .45 | -2.10 | 6.36 | .05 | -.75 Q | -141.5 | -21.0 | .4 | NE | .12 | 2.5 | 10-19-81 | 395.5 | 1.4 | .6 | 19.0 | 6 | 1281 |
| Restaur Assc | RA | 4.13 | 3.75 | 4.00 | .13 | 3.23 | 7.00 | 3.75 | -.14 | -1.01 | -3.55 | -24.07 | .97 | -.14 Q | -15.3 | 51.0 | 2.4 | 5.2 | .00 | .0 | 00-00-00 | 99.2 | 2.4 | 1.3 | 3.2 | 6 | 1281 |
| Saga Corp | SGA | 28.75 | 26.75 | 27.50 | .75 | 2.80 | 29.25 | 16.00 | .52 | -1.09 | .23 | -27.54 | 2.36 | 1.07 N | 49.7 | 18.0 | 1.4 | 8.5 | .56 | 2.0 | 05-17-82 | 819.0 | 11.6 | .9 | 9.3 | 15 | 0681 |
| Sea Galley | SEAG | 8.75 | 7.63 | 7.75 | -.75 | -8.82 | 14.75 | 6.88 | -.12 | -4.08 | 5.68 | -15.82 | .68 | .08 Q | 13.5 | 55.0 | 4.5 | 11.6 | .00 | .0 | 06-02-81 | 49.0 | 2.2 | 1.8 | 2.4 | 5 | 1281 |
| Servico Inc | SRVI | 9.00 | 7.03 | 8.75 | 1.47 | 20.17 | 9.53 | 6.38 | .12 | 1.76 | -.71 | -31.88 | 1.54 | -.46 Q | -30.6 | 78.0 | 3.5 | 8.4 | .00 | .0 | 07-09-82 | 126.4 | 4.4 | 1.1 | 51.0 | 5 | 1281 |
| Shoneys Inc | SHON | 18.25 | 17.75 | 17.88 | -.25 | -1.38 | 18.25 | 11.91 | .28 | -.96 | 3.13 | 10.46 | 1.03 | .25 S | 27.1 | 21.0 | 5.5 | 15.3 | .16 | .9 | 03-29-82 | 269.4 | 14.8 | 1.0 | 2.0 | 5 | 1081 |
| Sonesta Hotel | SNSTZ | 11.00 | 10.50 | 10.50 | -.50 | -4.55 | 13.50 | 8.50 | .34 | -.29 | -7.19 | -50.00 | .94 | .37 Q | 217.6 | 32.0 | 1.4 | 19.4 | .20 | 1.9 | 06-25-82 | 145.0 | 2.1 | .9 | 27.7 | 10 | 1281 |
| Steak n Shake | STAK | 2.81 | 2.69 | 2.75 | .06 | 2.33 | 3.13 | 2.38 | .26 | .00 | .34 | -17.93 | .06 | -.23 S | -79.3 | -34.0 | .5 | 45.8 | .00 | .0 | 05-17-79 | 56.5 | .3 | 1.2 | 4.6 | 3 | 0981 |
| Valles Steak | VLE | 6.50 | 6.13 | 6.13 | -.38 | -5.77 | 6.63 | 4.25 | -.03 | -.25 | 3.28 | -52.08 | -.38 | -.16 F | NE | -26.0 | -1.5 | NE | .00 | .0 | 11-01-78 | 65.6 | -.6 | 1.3 | 7.8 | 10 | 0381 |
| Victoria Stations | VSTA | 7.63 | 7.25 | 7.50 | .38 | 5.26 | 11.00 | 6.25 | -.29 | -.25 | -4.61 | .85 | .35 | 2.20 F | NE | -30.0 | 1.0 | 21.4 | .00 | .0 | 09-19-79 | 134.5 | -5.8 | 1.0 | 9.0 | 10 | 0381 |
| Wendys Intl | WEN | 18.13 | 15.88 | 17.75 | 1.63 | 10.08 | 18.75 | 12.25 | .51 | .28 | .73 | -10.57 | 1.52 | .14 Q | 10.0 | 18.0 | 7.5 | 11.6 | .28 | 1.6 | 05-11-82 | 490.4 | 36.9 | .6 | 3.8 | 8 | 1281 |
| Webb Del E | WBB | 7.00 | 6.13 | 6.75 | -.13 | -1.82 | 11.50 | 4.88 | .35 | -.42 | .28 | 3.77 | .56 | .80 Q | NE | -24.0 | 1.3 | 10.9 | .00 | .0 | 11-07-80 | 414.8 | 5.3 | 1.1 | 16.1 | 13 | 1281 |
| Winners Cp | WNER | 10.75 | 9.88 | 10.75 | .63 | 6.17 | 11.00 | 6.38 | .19 | 1.62 | -.43 | 3.70 | .67 | .72 Q | 200.0 | 4.0 | 2.1 | 13.8 | .00 | .0 | 00-00-00 | 72.7 | 1.5 | .3 | 13.4 | 7 | 1281 |

*KEY: NA—Not Applicable NC—Not Calculable NE—Negative Earnings Q-First Quarter S-Six months N-Nine months F-Fiscal year*

**—Other than a quarterly multiple resulting from a fiscal year change.*

Data and Table Provided by Media General Financial Services, Inc., Richmond, VA 23261

## Taco Charley losses mount

SAN MATEO, Calif.—Taco Charley Inc., operator of 41 Mexican fast-food restaurants, reported a net loss of $1.7 million for the fiscal year ended Feb. 27, compared to a net loss of $1 million for the previous year.

Sales for the most recent year were $12.6 million, up from the prior year's $11.2 million.

The company, whose restaurants are located in California and Nevada, said operating results were adversely affected by nonrecurring items, including a $260,000 provision for closed restaurants and $200,000 in professional fees related to its spin-off from Calny Inc.

Meanwhile, negotiations were continuing at presstime between PepsiCo and its Taco Bell subsidiary, and Taco Charley for the previously announced sale of Taco Charley to Taco Bell.

### EARNINGS REPORT

| Company | Period | Period Ended | Total Sales* | % Change | Revenues*† | % Change | Net Income (Loss)* | % Change |
|---|---|---|---|---|---|---|---|---|
| **Taco Charley** | 12 mos. | 2/27 | $ 12.552 | | | | $ (1.718) | |
| **Pillsbury Co.** | 12 mos.<br>3 mos. | 5/31<br>5/31 | 3,385.100<br>903.700 | 2<br>5 | | | 136.300<br>39.400 | 13.9<br>40 |
| **Trusthouse Forte** | 6 mos. | 4/30 | | | $699.400 | 10 | 15.000 | 10 |
| **Beefsteak Charlie's** | 7 mos.<br>4 mos. | 5/15<br>5/15 | | | 53.171<br>31.955 | 21<br>8 | 2.792<br>1.876 | 60<br>55 |
| **Morrison Inc.** | 12 mos.<br>13 wks. | 5/29<br>5/29 | | | 366.598<br>102.040 | 14<br>19 | 15.658<br>4.814 | 21<br>37 |
| **Int'l Dairy Queen** | 6 mos.<br>13 wks. | 5/28<br>5/28 | | | 47.399<br>31.443 | 6<br>12 | 44.569<br>2.149 | 7<br>12 |
| **Hungry Tiger Inc.** | 40 wks.<br>16 wks. | 6/4<br>6/4 | 42.027<br>17.748 | 11<br>11 | 1.445 | | 1.445<br>662,000 | 21<br>25 |
| **Valle's Steak House** | 12 mos.<br>13 wks. | 3/31<br>3/31 | 66.078<br>14.889 | 0.7 | | | (1.170)<br>(1.310) | |

Source: *Company earnings reports*

**In millions*

†*In cases where companies do not break out their total sales for all units, revenues are indicated instead. These generally consist of company-owned restaurant sales, franchise fees and rental incomes, royalties and operating income, as well as other miscellaneous incomes, such as interest income and gains on real estate and construction.*

## Beefsteak Charlie's earnings up

NEW YORK—Beefsteak Charlie's, operator of 66 steakhouses along the Eastern Seaboard, reported net income up 58% to $1.9 million for the first quarter ended May 15, from $1.2 million for the prior year's comparable period.

Revenues for the quarter were $32 million, up from $29.6 million a year ago.

The quarter's net income included $830,000 in tax benefit of operating loss carryforward.

For the 28 weeks ended May 15, net income rose by nearly $1 million, to $2.8 million. Revenues were $53 million, up from $43.6 million the year before.

The company recently announced an agreement with ShowBiz Pizza Place to build 100 franchised ShowBiz Pizza restaurants.

# Japan seafood importers reach price accord

WASHINGTON—A group of major Japanese seafood importers reached a tentative price-fixing settlement with Federal antitrusters that could have an indirect, but long-term impact on the price that United States restaurants pay for crab meat.

Justice Department enforcers who engineered the pending agreement told *Nation's Restaurant News* that while the terms of the settlement apply only to eight Japanese firms, Japan currently imports about two-thirds of all tanner crab meat harvested off the coast of Alaska.

In view of this substantial market share, Federal antitrust officials acknowledged that the new antiprice fixing settlement could well drive up the price of the remaining supplies of Alaskan crab, much of which is ultimately marketed to restaurants on the West Coast and other parts of this country.

The Government complaint that triggered the still-tentative settlement alleged that the foreign seafood firms used the Japan Marine Products Importers Association (J.M.P.I.A.) as a forum for fixing the prices they paid United States seafood suppliers for Alaskan tanner crab since 1979.

As a result of this alleged conspiracy, the "prices paid for processed tanner crab were depressed at artificial and noncompetitive levels," the Justice Department complaint charged.

The eight firms charged with participating in the cartel—C. Itoh & Co., Kyokuyo Co., Mitsui & Co., Nippon Reizo Kaisha, Nippon Suisan Kaisha, Shinko Sangyo Trading Co., Taiyo Fishery Co. and Toshoku Ltd.—represent "more than 50% of the purchases made by Japanese firms," the complaint maintained.

If the Court approves the proposed consent decree, already agreed to by the Japanese, the eight firms will be prohibited from "fixing prices and exchanging price and other competitive information relating to their purchase of processed Alaskan seafood," Assistant Attorney General William Baxter said.

Although it is too early to say what effect the consent decree will have on the market, Justice Department officials acknowledged that it "could result in higher prices for domestic buyers." A price hike could occur as the market reflects the "true" cost of Alaskan tanner crab meat, not the artificially low price dictated by the Japanese companies.

Among other stipulations provided for in the proposed consent decree, the companies must file annual J.M.P.I.A. meeting reports for five years as well as provide all employees with a copy of the decree annually for the next 10 years.

The proposal, however, does not prohibit the companies from engaging in legal business activities or meeting with J.M.P.I.A. as long as price-fixing discussions aren't undertaken.

# F.D.A. inspection plan allows recycling of 'suspect' salmon

WASHINGTON — "Recycled" stocks of canned salmon recalled by the Food and Drug Administration because of suspected contamination could find their way back to the food-service industry under a deal struck by the salmon industry and food safety regulators.

The salmon recalls, which already total 60 million cans, resulted from F.D.A. investigations after the death of a man in Belgium from botulism traced to Alaskan salmon. Federal food safety regulators revealed that holes in salmon containers created during the canning process could permit the formulation of botulism toxin in the cans.

Under the new program, recalled salmon cans that successfully pass an examination including visual inspection and testing for leaks will be allowed back on the market. While most of these cans will end up in supermarkets, some may filter into the food-service industry.

In order to prevent a recurrence of the salmon scare, food safety regulators conducted intensive training courses for Alaskan inspectors. In addition, the salmon canning industry modified its reforming machinery responsible for creating holes in the cans. Warehouses in the state of Washington also received equipment to inspect cans for defects prior to labeling.

Although F.D.A. microbiological testing of at least 130 defective cans found no trace of botulism toxin, the agency will continue to "audit check" food warehouses to ensure that all recalled salmon cans are returned to the manufacturer.

# Letter slur hurts Carsons' sales

SKOKIE, Ill.—A Carsons barbecued rib restaurant here has experienced a 10% drop in its carryout business as a result of a highly publicized altercation between the founder of the chain and a dry cleaner.

The problem began when Chris Carson was unhappy with the service a dry cleaner he has done business with for sometime on the posh North Side of Chicago gave to an item of expensive apparel. After a series of claims and counter-claims Carson sent the dry cleaner a note saying, "I would have sued but I'm a Greek and not a kike." A friend of the dry cleaner mailed copies of the letter to various organizations, which began to boycott the Skokie Carsons.

The incident occurred in May but came to light more recently when several local newspapers reported on the matter. Carson himself contacted one major newspaper to indicate he had not meant to slur all Jews.

Donna Giannis, one of Carson's children who manages this particular location, said while she has noticed the decrease in take-out there has been no difference in customer count in the restaurant. She said none of the other locations—two in Chicago, one in Lombard, Ill., and one in Arizona—have felt any effects. Giannis said the family has experienced some personal threats but aren't considering any steps to recoup the business. "Some people aren't willing to let this die down and there's nothing you can do to combat that," she said.

Carsons was one of the first chains to gain popularity in the barbecued rib market. That market is rapidly expanding and Carsons has had success with free appetizers at the bar and huge portions at moderate prices.

CHAIN ANALYSIS
PART II
*Appearing next issue*
*of*
*Nation's Restaurant News*

## Webb sells hotel site to Golden Nugget division

ATLANTIC CITY—Officials of Del E. Webb Corp. said last month they had sold the site of the former Presidential Hotel here for $9 million to SCB Development Co., a wholly owned subsidiary of Golden Nugget Inc., the Las Vegas-based casino and lodging firm.

Del E. Webb Corp., a Phoenix concern, had purchased the site and demolished the former hotel with plans of building a new casino-hotel.

The sale still leaves Del E. Webb with one property in Atlantic City, the Claridge casino-hotel, which was granted a permanent gaming license last month by the state casino control commission.

State authorities issued the go-ahead after clearing the background of Robert H. Johnson, president of the foundation which owns 28.5% of Del E. Webb.

## Roberts named exec vp of Far West operations

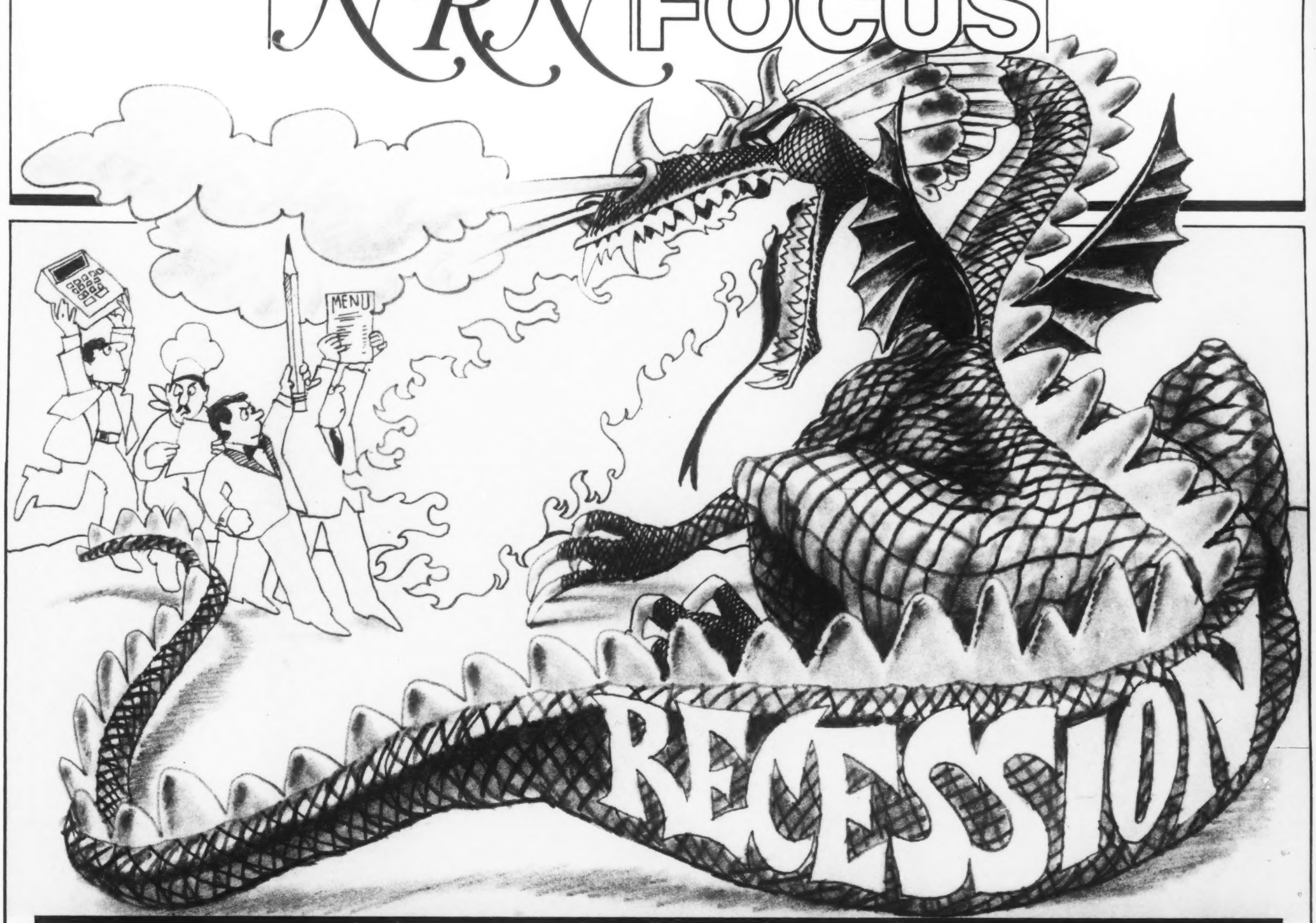
IRVINE, Calif.—Ralph Roberts has been named executive vice president of operations for Far West Services' 132-unit dinnerhouse division. The W. R. Grace Co. operation had 1981 sales estimated at $145 million from restaurants such as Reuben's, Plankhouse and Moonraker.

### Past Record

Roberts, 40, had most recently been president of Nestle Co.'s 70-unit Stouffer restaurant group. He was executive vp of Borel's Restaurant Corp. and president of the Borel's division after its acquisition by Nestle in 1966.

**Ralph Roberts**
*exec operations vp*
*Far West Services*

# NRN FOCUS



## CHAIN ANALYSIS PART I: THE TOP 100

# STAVING OFF THE ECONOMIC BEAST

**NRN Special Report**

Faced with high interest rates and a sluggish economy, the top 100 volume food-service chains are pulling in their belts and eying expansion in cautious terms. They're focusing much of their attention on remodelings of existing units and on building up the unit volumes.

Where the top 100 (see tables, Pages 130-131) had projected a total of 7,670 new units to open for their latest fiscal years, or an 8.8% increase, only 3,350 of these actually opened, up 4.1%. Now these chains are projecting a more cautious 5,010 new ones on top of a current 85,550, for 5.8% increase. And the reality is that this figure is likely to be trimmed to 3.5% or 4%.

*FLAT SALES GROWTH OF TOP 100*

| | 1981 | 1982 |
|---|---|---|
| **Total Sales Increase** | 13.1% | 12.9% |
| **New Units** | 4.1 | 5.8 |
| **Avg. Menu Price Rise** | 9.0 | 6.5 |
| **Real Sales Growth** | 0.0 | 0.6 |

**The top 100's flat sales growth parallels the averages of other food-service chains.**

Source: *Nation's Restaurant News* research

With the prime interest rate still likely to hover in the 15% range, expansion money remains difficult to obtain. Furthermore, unemployment remains in the 9% range—twice that in some areas—and the actual gross national product growth appears flat or down this year.

Encouraging signs for the big chains are the July 1 tax cut whose impact remains to be determined, and a definite inflation cutback with only a 6% rise in the consumer price index from last year.

Real comparative growth of the top 100 chains (total sales minus new units and minus menu price increases) still looks flat, with a 1% rise in prospect at best. This is similar to the flat growth being experienced in most all segments of the food-service industry.

But the top 100 continue to gain a wider share of total food-service sales. Their $50.7 billion total projected sales for the current fiscal year represent 36.7% of the $138 billion sales projected for all United States food service. Last year the top 100 accounted for $44.9 billion, or 35.6% of the total.

Their volume proportion is almost twice as high as their unit proportion, since the current 85,550 units of the top 100 represent 19% of a total estimated 450,000 food-service units. This might be expected since the large chains tend to generate higher per unit sales.

*TOP 100 GAINS MARKET SHARE*

| | 1981 | 1982 |
|---|---|---|
| **Total U.S. Food Service Sales** | $126 billion (+10.5%) | $138 billion (+10.0%) |
| **Top 100 Sales** | $44.9 billion (+13.1%) | $50.7 billion (+12.9%) |
| **Top 100 Ratio of Total U.S. Food Service Sales** | 35.6% | 36.7% |

**With 85,550 units, the top 100 accounts for only 19% of total units but almost 37% of total sales.**

Source: *Nation's Restaurant News* research

Consolidation and expansion through mergers and acquisitions mark the top 100 list heavily. (See story and charts, Page 50.)

A few of the hot rising chains cracked into the list for the first time, including T.G.I. Friday's, Chi Chi's and Golden Corral. Some such as Gino's and Burger Chef were dropped as entities because of mergers. But generally the same names dominated the list.

The newcomers, though, are indicative of significant changes in the making for the top 100 that may not be apparent at first blush.

ChiChi's, for instance, is a single concept company at present. But the appearance of a Mexican dinnerhouse chain on the list is mirrored by the increasing rapidity with which companies like General Mills, Chart House, Ponderosa and other old-timers are pushing into this business.

And, of course, Pizza Time Theatre's debut is a stand-in, not for the traditional companies, but a host of fledglings, one or more of which—such as Brock's Show Biz Pizza—may themselves see the top 100 list before too long.

***Encouraging signs for the big chains are the July 1 tax cut and a definite cutback in inflation with only a 6% rise in the consumer price index from last year.***

# NRN FOCUS

## *CHAIN ANALYSIS—Part I*

# INDEX

A & W .......... P. 131
ARA .......... P. 147
Arby's .......... P. 64
Baskin-Robbins .......... P. 130
Bob's Big Boy .......... P. 116
Bonanza .......... P. 139
Burger King .......... P. 58
Canteen .......... P. 148
Carl Karcher's .......... P. 66
Carvel .......... P. 131
Chart House .......... P. 91
Chi-Chi's .......... P. 131
Church's .......... P. 73
Collins .......... P. 132
Country Kitchen .......... P. 131
Custom Mgt. .......... P. 131
Denny's .......... P. 104
Disney .......... P. 131
Dobbs Houses .......... P. 148
Domino's .......... P. 98
Dunkin' Donuts .......... P. 130
Far West .......... P. 93
Friendly .......... P. 113
Frisch's .......... P. 118
Furr's .......... P. 101
Gilbert/Robinson .......... P. 93
Godfather's .......... P. 96
Golden Corral .......... P. 139
Greyhound Food .......... P. 142
Hardee's .......... P. 63
Hilton Hotels .......... P. 126
Hilton Int'l .......... P. 128
Holiday Inns .......... P. 123
Host Int'l .......... P. 130
Howard Johnson .......... P. 113
Hyatt .......... P. 124
IHOP .......... P. 115
IDQ .......... P. 102
Interstate United .......... P. 130
Jack-in-the-Box .......... P. 64
Jerrico .......... P. 118
KFC .......... P. 73
K mart .......... P. 130
Krystal .......... P. 71
Luby's .......... P. 102
Macke .......... P. 149
Mannings .......... P. 131
Marie Callender .......... P. 131
Marriott .......... Pp. 60, 123, 142
McDonald's .......... P. 57
Mr. Donut .......... P. 130
Mr. Steak .......... P. 131
Morrison .......... P. 101
Ogden .......... P. 148
Perkins .......... P. 115
Piccadilly .......... P. 102
Pizza Hut .......... P. 96
Pizza Inn .......... P. 98
Pizza Time .......... P. 98
Ponderosa .......... P. 132
Popeyes .......... P. 74
Ramada Inns .......... P. 126
Rax .......... P. 131
Red Lobster .......... P. 91
Saga .......... P. 147
Sambo's .......... P. 116
Sears .......... P. 131
Seiler .......... P. 131
Service Systems .......... P. 149
Servomation .......... P. 130
Shakey's .......... P. 131
Sheraton .......... P. 124
Shoney's .......... P. 104
Sirloin Stockade .......... P. 131
Sky Chefs .......... P. 142
Sonic .......... P. 66
Spartan Food .......... P. 130
Sportservice .......... P. 131
Steak & Ale .......... P. 130
Stouffer's .......... P. 130
Stuckey's .......... P. 131
Szabo .......... P. 149
Taco Bell .......... P. 94
Tastee Freez .......... P. 131
TGI Friday's .......... P. 131
United Airlines .......... P. 131
Victoria Station .......... P. 93
Village Inn .......... P. 131
Waffle Houses .......... P. 131
Walgreen .......... P. 131
Wendy's .......... P. 63
Western Sizzlin' .......... P. 130
Western Steer .......... P. 131
Westin .......... P. 128
Whataburger .......... P. 131
White Castle .......... P. 71
Wienerschnitzel .......... P. 131
Woolworth .......... P. 131
Wyatt .......... P. 131
York .......... P. 131

# Corporate ownership of chains soars

**By Charles Bernstein**

Leading food-service chains are either picking off other chains or being acquired by larger corporations, at an exceptionally rapid pace these days. Tough economic conditions and proliferating costs have made it extremely difficult to go it alone or to expand alone at any sort of reasonable pace.

At the same time, however, a number of major corporations have become disillusioned with the restaurant business and are selling off their chains to other groups. They are finally realizing that success in this business takes a special kind of personal dedication on which they may not be prepared to concentrate all their efforts.

In recent months, chains have been obtaining other chains and new prime sites en masse (rather than having to pay the astronomical costs of obtaining less than the best sites one by one).

Marriott has acquired Host International (which will operate airport terminal feeding and the dinnerhouses) and Gino's (to be converted to Roy Rogers). Hardee's purchased Burger Chef from General Foods. Denny's picked off Alphy's and VIP's for the sites. PepsiCo did likewise with Taco Charley's, to be placed in the Taco Bell chain.

Shoney's added Famous Recipe to its stable of entries, while Interna-

*(Continued from page 55)*

### *Major Changes in Corporate Ownership In Latest Year*

**(Acquired Chains Listed Unless Otherwise Indicated)**

| | |
|---|---|
| **Allied Associate Distillers (London)**<br>Baskin-Robbins (Formerly owned by Allied subsidiary J. Lyons) | **Campbell Soup**<br>H. T. McDoogal's, Annie A's (Launched) |
| **Bay Bottlers**<br>Magic Pan, Proud Popover (Formerly part of Quaker Oats) | **Chart House**<br>Sysco's (Launched)<br>Luther's (Acquired) |
| **Bonanza**<br>Peoples (Spun off separately) | **Denny's**<br>Alphy's, VIP's |
| **DeNovo Corp.**<br>Tastee Freez (Formerly part of Topsy's) | **Golden Corral**<br>Sirloin Stockade (Formerly part of Lucky Stores)<br>Oh! Brian's (Formerly part of Aspen Group) |
| **Hardee's**<br>Burger Chef (Formerly part of General Foods) | **Horn & Hardart**<br>Bojangles |
| **International Dairy Queen**<br>Golden Skillet | **Lumara Foods**<br>Arthur Treacher's (Formerly part of Mrs. Paul's Kitchens) |
| **Marriott**<br>Host International Gino's | **Morrison**<br>Ruby Tuesday |
| **New York Foods**<br>Nedick's (Formerly part of Ogden Foods) | **PepsiCo**<br>Taco Charley's |
| **Ponderosa**<br>Casa Lupita | **R. J. Reynolds**<br>Skolnik Bagels |
| **Sea Galley**<br>Family Fish Houses (Formerly part of Macke) | **Service Systems**<br>Stouffers Food Mgt. |
| **Shoney's**<br>Famous Recipe | **Taubman Co.**<br>A&W (Formerly part of United Brands) |

### *Current List of Chain Corporate Ownership*

**(Included only if Additional Information Than in Above Charts)**

| | |
|---|---|
| **Campbell Soup**<br>Hanover Trail, Pietro's, McDoogal's, Annie A's | **Campbell Taggart**<br>El Chico |
| **City Investing**<br>Sambo's (34% ownership), Servomation, Motel 6, Red Barn | **Consolidated Foods**<br>Lyons Restaurants |
| **Del Monte (R. J. Reynolds subsidiary)**<br>Service Systems, Stouffer's Food Mgt. | **General Foods**<br>GuadalaHARRY'S, Merrywether's, Crock n Block, White Spot (All up for sale) |
| **General Mills**<br>Red Lobster, York, Darryl's, Casa Gallardo, Good Earth | **Greyhound Corp.**<br>Greyhound Food Mgt., Burger King (franchisee) |

*(Continued on page 55)*

NRN FOCUS

# Corporate ownership of food-service chains continues to soar

*(Continued from page 50)*

tional Dairy Queen purchased Golden Skillet. This gave both these beleaguered chains hope for capital that could enable them to make a stronger showing in the crowded fried chicken market.

Morrison, a strong Southern food-service management and cafeteria chain, decided it needed another dimension and acquired the promising Ruby Tuesday casual restaurant chain in Tennessee.

In many cases the motivation for acquisition is strictly to obtain a potentially chainable concept. Thus Chart House acquired two Luther's barbecue restaurants in Houston and has hopes of opening over 100 franchised units. And Ponderosa bought the three-unit Casa Lupita Mexican dinnerhouse concept from its Seattle owners with a view toward expansion.

Campbell Soup, which previously sold off its Herfy's fast-food restaurants and has lagged with its Hanover Trail steakhouses, launched its own H. T. McDoogal's and Annie A's casual restaurants with apparent strong expansion potential.

Golden Corral, a rising family steakhouse chain out of Charlotte, N.C., made two big moves with the acquisitions of Oklahoma-based Sirloin Stockade family steakhouses from Lucky Stores and of the Aspen Group (featuring Oh!Brian's restaurants in North Carolina and Pennsylvania).

Private investment groups, often a part of a chain's management team or franchisees, also loomed big in takeovers. Brigham's, Farrell's Krispy Kreme Donuts and Valle's were sold to such groups by Jewel Companies, Marriott, Beatrice Foods and the Valle family respectively. In each case the seller deemed the chain more trouble than it was worth, but the buyer already had a major personal management stake in seeing it succeed.

Quaker Oats recently sold its Magic Pan restaurants to Bay Bottlers of Oakland, Calif., General Foods and the Swiss-based Wienerwald (Lums and IHOP) are trying to sell their restaurants.

A feeling is emerging that a diversity of restaurant concepts must be in a company's arsenal to buttress it against the whims of the economy. In many cases it's either a wide range of chains (i.e., W. R. Grace, General Mills, Pillsbury) or none as indicated by the corporations that are selling their chains.

## *Current List of Chain Corporate Ownership*

| | |
|---|---|
| **Hanson Trust**<br>Interstate United | **H. J. Heinz**<br>Burger King franchisee (Puerto Rico) |
| **Hershey Foods**<br>Friendly | **Heublein**<br>KFC, H. Salt, Zantigo |
| **Hunt International Resources**<br>Shakey's | **Imasco**<br>Hardee's, Burger Chef |
| **Imperial Group**<br>Howard Johnson (HoJo, Ground Round, Red Coach, Chatt's) | **International Multifoods**<br>Mr. Donut, Boston Sea Party |
| **L. D. Brinkman**<br>Mr. Gatti's | **Ogden Corp.**<br>Ogden Food, Doggie Diners, Gleason Family Restaurants |
| **PepsiCo**<br>Pizza Hut, Taco Bell, Taco Charlie | **Pet Inc. (Subsidiary of IC Industries)**<br>Stuckey's |
| **Pillsbury**<br>Burger King, Steak & Ale, Bennigan's, Poppin Fresh Pies | **Ralston Purina**<br>Jack-in-the-Box, Continental Restaurants |
| **Royal Crown**<br>Arby's | **Trans World**<br>Canteen, Spartan Foods (Hardee's franchise, Quincy's Steakhouse), Hilton International |
| **Trust House Forte**<br>Colony Kitchens, Hobo Joe's, Travel Lodge | **W. R. Grace**<br>Far West dinnerhouses, Coco's, Jojos, Del Taco, El Torito, Gilbert Robinson (Houlihan's) |
| **Wienerwald**<br>Lums, IHOP (Both up for sale) | |

## *Operator Ownership Of Chains*

| | |
|---|---|
| **American Airlines**<br>Sky Chefs | **ARA**<br>Davre's |
| **Carlson**<br>TGI Friday's, Country Kitchen, Radisson Hotels | **Carson Pirie Scott**<br>Dobbs Houses |
| **Chart House**<br>Chart House Steakhouses, Burger King (franchisee), Luthers's, Sysco's | **Collins Foods**<br>Sizzler, KFC (franchisee) |
| **Denny's**<br>Winchell's, Alphy's, VIP | **DeNovo**<br>Dog n Suds, B&K fast food, Dairy Isle Restaurants, Tastee Freez |
| **Horn & Hardart**<br>Bojangles, Arby's (franchisee), Burger King (franchisee) | **Holiday Inns**<br>Perkins, Pipers, Harrah's |
| **Jerrico**<br>Long John Silver's, Jerry's | **K mart**<br>Furr's, Abracadabra |
| **Krystal**<br>Dav-Co (Wendy's franchisee) | **Marriott**<br>Roy Rogers, Big Boys Hot Shoppes, Host International, Casa Maria, Charley Brown's |
| **Oak Brook Consolidated**<br>Szabo | **Red River Resources**<br>Swensen's |
| **Saga**<br>Stuart Anderson's Black Angus, Straw Hat Pizza, Velvet Turtle | **Shoney's**<br>Shoney's Big Boy, Town & Country, Captain D's, Famous Recipe |
| **Wendy's**<br>Sisters Chicken & Biscuits | |

*Look For*
**CHAIN ANALYSIS PART II:**
***MENU AND OPERATIONAL ANALYSIS***
*Coming Next Issue*

## BURGER SEGMENT

### McDONALD'S

# Nontraditional course yields slow advance

OAK BROOK, Ill.—McDonald's is seeking nontraditional sites for new restaurants, adding nonbeef menu items at a fast pace and trying to build customer traffic with games, prizes and food giveaways to counter threats posed by market saturation, so-called hamburger fatigue and stepped-up competition from other fast feeders and family restaurant chains.

If the strategy sounds familiar, it is because McDonald's has been following this basic course for about two years with respectable, if not spectacular, results. While systemwide sales may reach $7.8 billion this year, up from $7.1 billion in 1981, per-unit sales adjusted for menu price hikes will rise only 2%.

Even though McDonald's enjoys more than a 6% share of the total domestic restaurant market, the company's critics claim that per-store sales have dropped 8%-10% over the last three years after adjustments for inflation.

For the second consecutive year, new units have opened below the chain's average sales volume of $1.1 million. On the plus side, more than 3,700 McDonald's restaurants report annual sales of $1 million or more.

Aware of possible market saturation, a point which is starting to haunt a number of national chains, McDonald's has been aggressively searching for untapped areas in which to open restaurants.

### Overseas

Overseas expansion offers one alternative. One third of the 500 units added to the McDonald's system in 1981 were in foreign countries. Sales from the 1,185 restaurants operating overseas totaled $1.3 billion last year, up 15% from 1980; 19% of total systemwide sales come from overseas restaurants.

In this country, McDonald's appears increasingly interested in alternatives to the traditional roadside restaurant site. More than 1,100 units are now located in shopping malls and storefronts, on college campuses, and in hospitals, airport terminals, museums, and the Toronto Zoo.

McDonald's last year opened two restaurants on the Garden State Parkway in New Jersey and one unit on the East-West Tollway in Illinois. There's also a McDonald's on a riverboat docked at the St. Louis Harbor.

The company has been negotiating with the Chicago Board of Education to provide food service in a pilot program in the city's schools, a task now handled by the city itself and subsidized by the Federal and state governments. The city now provides 325,000 breakfasts and lunches daily at an annual cost of about $70 million.

New menu items continue to play an important role in the McDonald's strategy. The McRib sandwich, a slab of reconstituted pork shaped to look like ribs, covered with a barbecue sauce and onions and served on a roll, is one of the chain's most popular new items.

**Ray A. Kroc**
*chairman of the board*

**Fred L. Turner**
*president, ceo*

The sandwich, which sells for $1.29 in New York and less in other cities—well below the price of a Quarter Pounder or a Big Mac—has been in test for only a year but is now available in more than 2,000 domestic units. It has been estimated that the sandwich will generate 3% incremental volume when it is rolled out chainwide.

McDonald's will continue to promote the sandwich in television ads throughout the year, aiming it primarily at adult male customers. Late this spring, many units offered free samples of the McRib sandwich at dinner time; last year, some stores gave away Chicken McNuggets as an introductory offer.

McNuggets, introduced in 1980, evidently are a big hit and will be available in all domestic restaurants by the end of the year. The McNuggets, according to one report, accounted for 11% of store sales in the first 1,600 test units and 5% incremental sales.

Faring less well is the McChicken sandwich, now on the menus in more than 4,000 units. The sandwich has been criticized for inconsistency and has generated a low percentage of incremental sales.

McDonald's is testing dessert centers, which in some areas have been placed in the front of mall and storefront restaurants. The centers offer drinks, shakes, pies, cookies and ice cream and are designed to attract passersby who want a snack but don't feel like going into the unit and standing on line.

Other traffic building concepts being added to many new and existing restaurants are drive-thru windows, miniature golf courses and McDonaldland parks. Nearly 80% of all domestic restaurants now have drive-thru windows, which account for 40%-45% of total unit sales and 10%-12% of incremental sales where they are added to existing units.

More than 1,000 units now have parks and several hundred have miniature golf courses.

### Promotions

Game-related promotions will be advertised for 24 weeks this year, according to one report in an advertising industry trade paper. McDonald's has had good experiences with such promos in the past; the Build-a-Big-Mac Sweepstakes in 1981, for example, raised customer counts 5%, according to a company spokesman.

One promotion being considered for this summer or fall is a rub-and-win game tied in to the Pac-Man craze. McDonald's is reportedly negotiating with the Midway division of Bally Corp., which holds the Pac-Man licensing rights, and Atari, which markets the home video version.

McDonald's is spending more than $250 million on advertising this year. The first ads produced by the company's new national account agency, Leo Burnett USA, began appearing in May. Some featured the "you-deserve-a-break-today" theme developed in 1971 and resurrected last year. The earliest Burnett ads were aimed at adults and promoted the McRib and McNuggets products.

Breakfast continues to play an important role in McDonald's per-unit sales. Close to 18% of total unit sales come from breakfast, compared to 17.2% in 1980, according to *Restaurant Industry Trends*. The average number of breakfast checks per unit rose 10% last year to 89,700 and average per-person breakfast checks were $2.16.

McDonald's newest store design, the Series 80 model, has cut construction and operational costs. The new store, according to the company, provides 17% cost savings and can be built in 118 days vs. 146 days for the older model. Energy costs in the new store are down 10%. About 85% of all units opened in 1981 were the Series 80 model.

The new store design is the first to use computer-generated volume forecasts to set up each section of a facility, including the cooking area, customer service counters, dining room, drive-thru, and storage space.

New technology also plays an important role in the new units and helps reduce operations costs. The Series 80 models have a french fry computer which uses less energy, a patented french fry scoop, solid state timing devices, a direct-draw shake machine, a computerized order-taking system, and gadgets like a ketchup-measuring device. A new McDonald's restaurant now costs about $750,000 for land, building and equipment.

In reporting first quarter results, Michael Quinlan, McDonald's USA president, said the 2% real sales

*(Continued on page 58)*

# Saturation, competition challenge chain ingenuity

**By Roman Czajkowsky**

**Look for heavy promotions and hard-sell advertising in the fast-food burger segment as chains try to cope with problems posed by market saturation and increased competition.**

**The new advertising posture is already evident at Burger King and Wendy's, both of which have introduced new national advertising campaigns that focus on food products and quality.**

**Pricing will also play a major role in efforts to increase traffic, which is no longer growing at the pace the chains became accustomed to in the 70's. Unless the cost of basic commodities rises dramatically, all major burger-oriented chains are likely to keep menu price hikes below 5%**

**Meanwhile, new menu introductions should continue to be the order of the day. While the diversification makes the chains less dependent on ground beef, which is prone to wide price swings, it's also designed to broaden a chain's customer base. With unit expansion slowed in part because of high interest rates, company officials are looking to new menu items and meal occasions to help boost revenues.**

**Ironically, the menu diversification is also boosting competition from coffee shops, because broader menu lines have blurred the traditional image of fast-food shops. The key to future success for any burger-oriented chain will be to maintain speed of service and to project a distinctive image in consumers' minds.**

**Increasing one's market share helps in attaining top of mind awareness, and battling for market share is precisely what burger-oriented chains are now doing. Burger King, for example, has indicated that it is looking to possibly buy a regional chain for conversion to Burger Kings, and Hardee's has become a major factor in the segment with its acquisition earlier this year of 700 Burger Chef units.**

**One result of this battle for market share is that smaller, weaker concepts are likely to disappear from the scene entirely, a fate in store for Gino's, for example.**

## *BURGER SEGMENT*

### BURGER KING

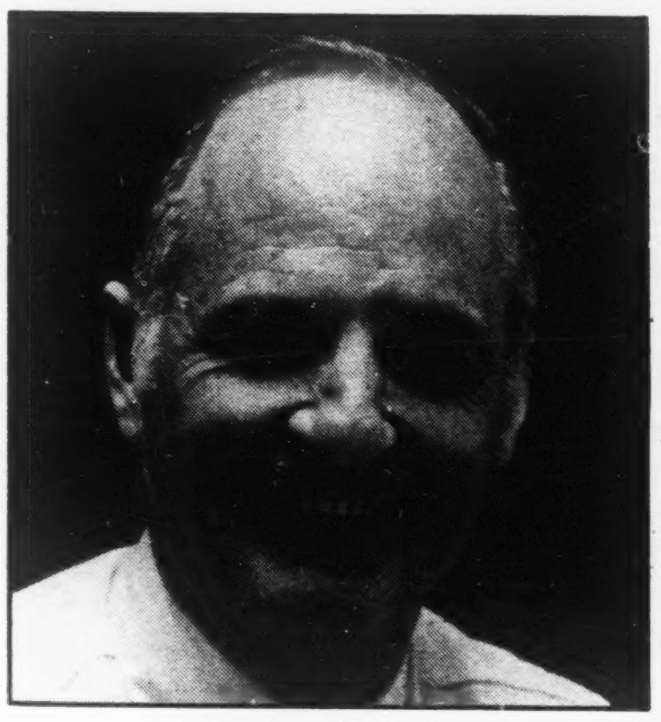
# *New team developing strategy for growth*

MIAMI—Some key strategic changes might be in store for Burger King as a new management team is trying to determine how to revive the sputtering hamburger chain's earnings growth.

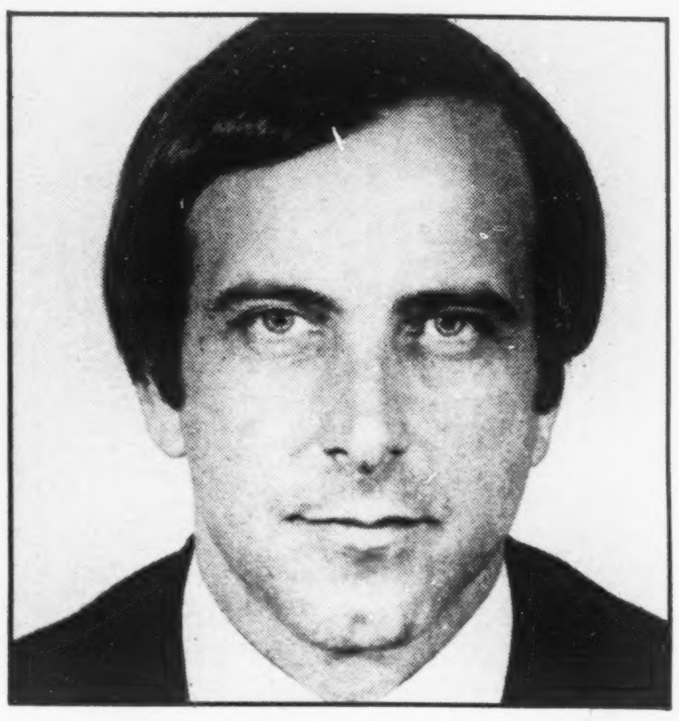
Earlier this year, Norman Brinker replaced Louis P. Neeb as the 3,200-unit chain's chairman and chief executive officer. Shortly before, J. Jeffrey Campbell was appointed to head the 3,000-unit domestic division, and Jerry Ruenheck was named president and chief operating officer of Burger King Corp. Brinker's appointment to the top BK slot—he is parent company Pillsbury's single largest shareholder and founder of its Steak & Ale division—marked the third change at the top in five years.

In each of the past two years, the chain's earnings have grown by about 10%, half the pace set in the mid-70's. And high interest rates as well as sagging profits at newly opened stores have slowed unit growth by as much as one-third. By many accounts, all this has not sat well with Pillsbury, whose earnings have climbed at an average annual rate of 26% since 1971. Burger King contributes about 25% of the parent's overall earnings.

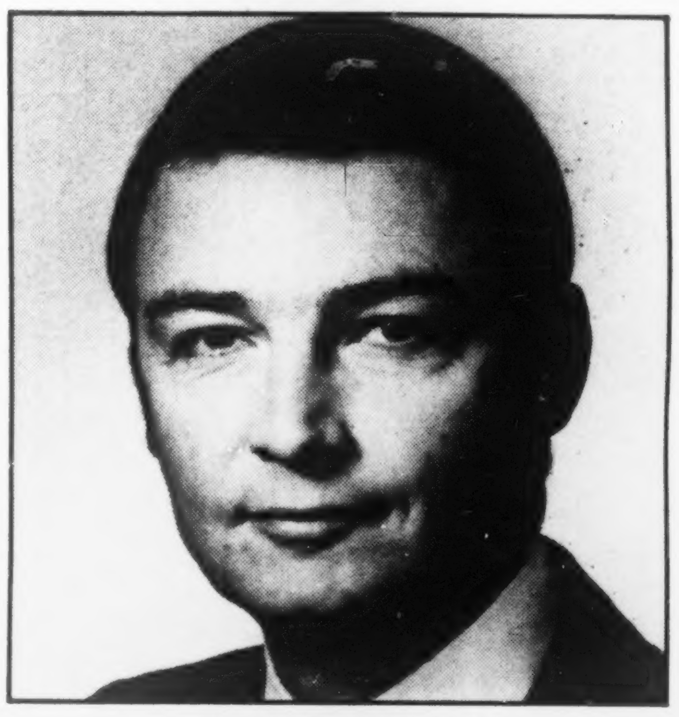
While it's too early to tell just what changes Brinker and the new management team will opt for to achieve the desired growth, on-the-record statements in the past several weeks provide some clues.



**Norman Brinker**
*chairman, ceo*



**J. Jeffery Campbell**
*president, BK-U.S.A.*



**Jerry Ruenheck**
*president, BK Corp.*

For one, Brinker has indicated he'll look at "the whole price/value image" of BK's product, including pricing and presentation. Brinker is known to feel that some of Burger King's products might be overpriced, thus working against one of fast food's traditional appeals.

Burger King's advertising will most certainly continue to emphasize burger products, as the current "Aren't you hungry?" ad campaign does. Past years emphasis on a variety of specialty sandwiches left many franchisees grumbling that the chain's signature item and prime draw, the Whopper, was being neglected. Brinker seems to agree with that sentiment; what's more, there's been speculation that the company's ad agency, J. Walter Thompson, might be dropped. Brinker has denied the suggestion, but told one newspaper that BK will need "more imagination, a stronger strategy" from the agency.

BK's ambitious plans to roll out a variety of dinner platters appear to have been placed on the backburner until a firm overall strategy is in place. And Brinker also indicated that even BK's decor package might be in for a change: "Some colors are today's colors, some are yesterday's," he was quoted as saying.

Chain officials have also said Burger King will be looking to acquire existing restaurants—or even an entire chain—for conversion to Burger King's, a move designed to increase market share.

BK has long given up hope to catch up with the sheer size of McDonald's, its principal competitor. Instead, officials talk about equaling McDonald's store sales within several years. But that objective might be hard to reach: McD's average store sales are $1.1 million, while Burger King's are about $760,000. What's more, McDonald's ad budget is three times that of BK's.

One of Brinker's major tasks will be to restore morale at headquarters and among franchisees. High turnover in Miami and the lack of a clear-cut direction are said to have contributed to Burger King's sagging performance.

Brinker, industry observers agree, has his work cut out for him. The veteran restaurateur, who'll continue as president of Pillsbury's new restaurant group, is viewed as an innovative thinker who takes nothing for granted and to whom nothing is sacred.

But unless he's able to increase Burger King's profitability within the not too distant future, rumors that Pillsbury might sell the chain are likely to persist.

***BURGER KING***

**Fiscal Year Ended May 31**

| | 1980 | 1981 | 1982 | Current Fiscal Year* |
|---|---|---|---|---|
| **Systemwide Sales (Billions)** | $1.80 | $2.10 | $2.35 | $2.60 |
| **Average Store Sales** | $710,000 | $728,000 | $751,100 | $800,000 |
| **Number of Units** | 2,766 | 3,022 | 3,255 | 3,500 |

Source: NRN research

*Projected

**Burger King Corp. increased menu prices an average of about 4% over the past 12 months.**

### McDONALD'S

# *Expect expansion pace to remain steady*

*(Continued from page 57)*

gains should continue or go up slightly over the year. The company plans to hike menu prices about 7% this year, the smallest increase in several years, due primarily to the absence of a minimum wage hike and relatively stable costs of beef.

McDonald's is continuing to reduce its long-term debt, which was $408 million in 1980 and $370 million in 1981. By the end of this year, the debt will have dropped to $300 million for a debt-to-equity ratio of 0.68-to-1, compared to 1.5-to-1 in the mid-1970's and 0.85-to-1 in 1981.

Despite the fact that the company's cash position is improved and it is able to finance new store openings with internally generated cash, McDonald's will not step up its expansion pace. As has been the case for the last few years, the chain will open about 500 restaurants this year, an annual growth rate of about 7%.

McDonald's has increased its ownership of restaurant property to 62% of all domestic restaurants and 30% of restaurants in foreign countries, which means additional income from franchisees in the form of rental fees.

The company has acquired about 250 restaurants and territorial rights since 1979 at a cost of about $91 million.

In 1981, McDonald's net income increased 20% to $264.8 million on a 14% rise in revenues to $2.5 billion. Systemwide sales were up 15% to $7.1 billion.

In a statement at the stockholders' annual meeting in May, Fred Turner, chairman and chief executive, said "we are confident that the company's management depth and financial strength coupled with our commitment to quality operations and creative marketing approaches will sustain our solid growth record throughout the 1980's."

***McDONALD'S***

**Fiscal Year Ended Dec. 31**

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| **Systemwide Sales (Billions)** | $5.3 | $6.2 | $7.1 | $7.8 |
| **Revenues (Where Different From Sales) (Billions)** | 1.9 | 2.2 | 2.5 | |
| **Net Profit (Millions)** | 189.0 | 220.8 | 264.8 | |
| **Average Store Sales** | 942,000 | 1.0M | 1.1M | 1.2M |
| **Average Check Per Person** | 2.10 | 2.25 | 2.60 | |
| **Number of Units** | 5,747 | 6,263 | 6,739 | 7,239 |

Source: NRN Research

*Projected

**McDonald's menu prices, which increased 14% in early 1981, were frozen at domestic company-owned units in the first six months of this year. Menu price hikes of 7% are expected for the year.**

**In the first quarter of 1982 ended March 31, McDonald's reported a profit of $58.5 million on revenue of $616.7 million and systemwide sales of $1.7 billion.**

## *BURGER SEGMENT*

MARRIOTT CORP.

# *Roy Rogers may boost into leadership role*

**The 200 Roy Rogers conversions planned over the next two years should make it the fifth or sixth largest chain in the country in terms of sales.**

WASHINGTON—With the conversion of as many as 200 Gino's restaurants to Roy Rogers units in the next 18 to 24 months, Roy Rogers will be catapulted into a leadership position in the fast-food industry and Gino's will be sent into oblivion.

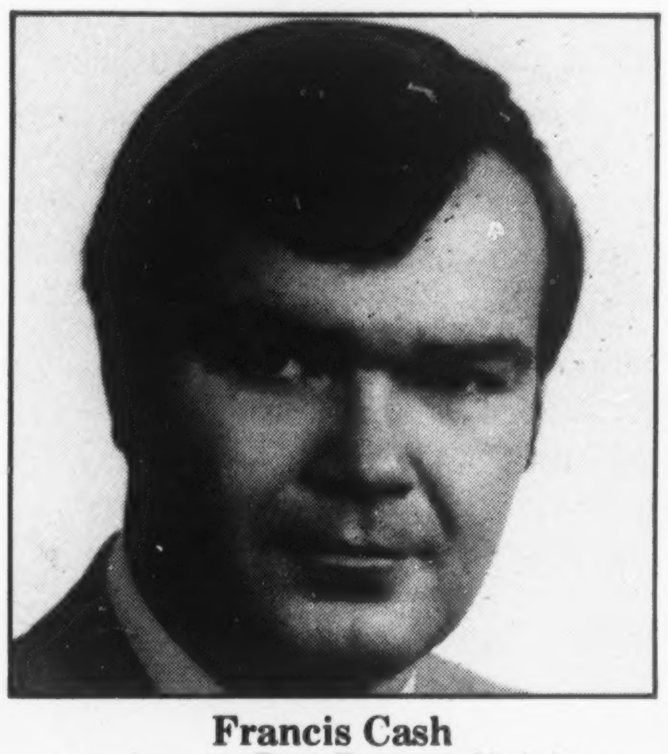
Marriott Corp., which owns both chains, has identified Roy Rogers as a major growth vehicle for the 1980's. With sales conservatively estimated at $275 million annually, Roy Rogers is a medium-sized fast feeder and one of the largest chains in its dominant market, the mid-Atlantic states.

When the Gino's conversions are completed, Roy Rogers will be the fifth or sixth largest fast-food chain in the country in terms of sales, which are now about $900,000 per unit at the 340 operating Roy Rogers restaurants.

In addition to unit expansion through acquisitions, Marriott plans to build units from the ground up in cities and suburban areas along the heavily populated Eastern Seaboard, primarily in Philadelphia, northern New Jersey, Baltimore and Washington, D.C.

Expansion into new markets, especially the Sunbelt and Western states, is planned after the Gino's conversions are finished, perhaps starting in 1984 or 1985, according to Francis "Butch" Cash, the Marriott senior vice president who heads the Roy Rogers restaurant group.

In the meantime, Roy Rogers will continue to position itself as a quality, fast-service family restaurant chain appealing primarily to adults.



**Francis Cash**
*senior vp, Roy Rogers division*

The company has identified Wendy's as its main competitor.

To facilitate expansion, Roy Rogers will accelerate its franchising program. About 75 of the converted Gino's units will be operated by franchisees, who now run about 140 of the restaurants in the Roy Rogers system.

About 40% of the chain's older units have been refurbished with new interior furniture and design and outdoor signs. The refurbishing program is continuing; some stores are shut down during such projects with managers enrolled in training programs and some hourly workers offered jobs at other restaurants nearby.

Roy Rogers is testing breakfast in about 10% of its units, but Cash said there are no plans to roll out breakfast chainwide for a year or two. Last year, a large roast beef sandwich and two other sandwiches were rolled out. Testing continues on a chicken filet sandwich.

Roy Rogers' menu is built around a roast beef sandwich and includes the other sandwiches, hamburgers, a chicken platter and a salad bar.

Advertising and promotions will continue to be geared to adults, except for one summer promotion tied in to the video game craze and geared to children. Marriott in June acquired rights to the use of Ms. Pac-Man from Bally Manufacturing Corp.'s Midway division for a contest featuring cash and food prizes.

The promotion, which is running in some Roy Rogers markets through Sept. 30, will feature instant winner prizes. Ms. Pac-Man is the successor to Pac-Man, the most popular video game.

### Acquisition

Marriott Corp. acquired Gino's earlier this year for $48 million and assumed a $40 million Gino's debt. In the deal, the company acquired 313 Gino's units, 45 franchised Kentucky Fried Chicken restaurants, 112 Rustler budget steakhouses, 70 closed restaurants, and one H. I. Ribsters rib restaurant in Annandale, Va.

Heublein Inc., KFC's parent, plans to buy as many as 80 Gino's and KFC units from Marriott. About 200 will be converted to Roy Rogers and the others will be sold.

The Marriott Restaurant Group has 549 company-operated and 1,083 franchised restaurants in 46 states, Canada and Japan. They include 340 Roy Rogers; 197 company-operated Big Boy coffee shops; 955 franchised Big Boys, many of which do not pay royalties; 14 Big Boy Jr. fast-food units; two Jr. Hot Shoppes; seven Hot Shoppes restaurants and 17 cafeterias.

Roy Rogers and Big Boy account for about 85% of the Restaurant Group's operating income, which in the first quarter ended March 26 was $5 million, up from $4.7 million in the same quarter the year before, on a 2% rise in sales to $95.5 million.

Operating income in 1981 for the Restaurant Group rose to $38.5 million from $29.6 million the previous year on sales of $446.4 million, up from $414 million in 1980. Most of the increases were attributed to the opening of new restaurants and price increases.

Customer counts have been flat for the last couple of quarters. Company officials blame it on the recession and see an improvement in customer traffic in the third and fourth quarters this year.

### Sales Up

Sales at Marriott's Big Boy units are "up strongly" on the West Coast but flat elsewhere in the country. Big Boy coffee shops in the East are expanding their salad bars and testing new menu items, including new sandwiches and hot entrees.

Marriott has no plans to expand its Big Boy or Hot Shoppes concepts in the near future, although several of the Gino's units may be converted to Big Boy coffee shops. The Gino's and Rustler restaurants will continue to operate until they are converted or sold.

## *MARRIOTT CORP.*

**Fiscal Year Ended Jan. 1, 1982 (Fiscal 1981)**

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| **Sales (Millions)** | | | | |
| **Hotel Group** | $541.8 | $656.1 | $820.9 | $975 |
| **Contract Food Service** | $479.7 | $529.7 | $599.0 | $587.2 |
| **Restaurant Group** | $370.4 | $414.0 | $446.4 | $455.3 |
| **Theme Parks** | $83.9 | $84.8 | $94.6 | $95 |
| **Cruise Ships** | $33.9 | $33.9 | $39.2 | $38 |
| **Total (Billions)** | **$1.5** | **$1.7** | **$2.0** | **$2.2*** |
| **Net Income (Millions)** | **$71** | **$72** | **$86.1** | — |
| **Operating Income (Millions):** | | | | |
| **Hotels** | $87.7 | $102.9 | $114.8 | — |
| **Contract Food Service** | $31.3 | $39.8 | $45.5 | — |
| **Restaurant Group** | $29.4 | $29.6 | $38.5 | — |
| **Theme Parks** | $17.5 | $16.6 | $17.7 | — |
| **Cruise Ships** | $4.0 | $3.8 | $2.7 | — |
| **Total** | **$170.0** | **193.0** | **$219.3** | — |
| **Number of Restaurant Units** | | | | |
| **Dinnerhouse**** | 2 | 0 | 52 | 52 |
| **Roy Rogers** | 256 | 287 | 325 | 395 |
| **Big Boy+** | 1,081 | 1,136 | 1,182 | 1,182 |
| **Gino's++** | 0 | 0 | 200 | 130 |
| **Cafeterias (Hot Shoppes, Hot Shoppes Jr.)** | 28 | 29 | 25 | 25 |
| **Big Boy Jr.'s** | 14 | 15 | 15 | 15 |
| **Number of Hotel Rooms** | 26,284 | 30,169 | 40,554 | 55,000 |

Source: NRN Research

*Projected (Total includes recently acquired Host Group, which is not listed.)

**Marriott sold its dinnerhouses to Host International in 1980 but acquired Host earlier this year and in the deal got airport concession stands and the dinnerhouses.

+Big Boy is the national coffee shop chain acquired by Marriott in the late 1960's. Because of the way some of the original franchise contracts were written prior to Marriott's involvement, about 40% of the franchised units do not pay a franchise fee to Marriott. Marriott operates about 210 Big Boy units and collects franchise fees from about 600 others. About 375 franchised Big Boy restaurants do not pay a franchise fee.

++Marriott acquired Gino's Inc. earlier this year, which brought 313 Gino's restaurants, 45 franchised KFC restaurants, 112 Rustler steakhouses, one H. I. Ribsters rib restaurant, and 70 closed restaurants into the Marriott system. About 200 Gino's will be converted to Marriott's Roy Rogers concept in the next two years; the other restaurants will be sold; KFC has already bought 80 of them.

**Menu prices at Marriott-owned restaurants and room prices at hotels have exceeded the inflation rate this year.**

**In the first quarter of this year ended March 26, Marriott reported profits of $16.9 million on systemwide sales for all operations of $243.6 million.**

# NRN FOCUS

## BURGER SEGMENT

### WENDY'S INTERNATIONAL

Fiscal Year Ended Dec. 31

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| Systemwide Sales (Billions) | $1.0 | $1.2 | $1.4 | $1.7 |
| Revenues (Where Different From Sales) (Millions) | $274.0 | $350.0 | $490.4 | $650.0 |
| Net Profit (Millions) | $23 | $30 | $37 | $42 |
| Average Store Sales | $620,000 | $627,100 | $673,600 | $720,000 |
| Average Check Per Person | | | $2.05 | $2.15 |
| Number of Units | 1,818 | 2,034 | 2,229 | 2,400 |

Source: NRN research

*Projected

**For the first quarter ended March 31, Wendy's International reported net income of $8.1 million on revenues of $138.4 million. Menu prices rose between 4%-6% over the past 12 months.**

WENDY'S

## Expanded dinner business and a new ad image for '82

DUBLIN, Ohio—Wendy's focus for the immediate future will be on expanding its dinner business. To this end, the 2,300-unit hamburger chain is testing a series of dinner plates in the Cincinnati market area.

This summer is also seeing the introduction of a new advertising campaign. Gone is the controversial "Ain't no reason" theme; in its place, Wendy's has unveiled a drive keyed to the theme, "Wendy's kind of people."

It focuses on Wendy's customers and also highlights food preparation, variety and quality. Aside from being panned for its grammar, the old campaign garnered some criticism from varied quarters for being too generic and unfocused.

The chain is apparently not unduly worried that its continuing menu diversification might befuddle its image. Only two years ago Wendy's was a strictly hamburger-oriented concept.

In a move to lessen its dependency on beef, a series of products has been introduced since, including a salad bar and chicken sandwich. At the moment, the chain is rolling out a fish sandwich, now available in over 120 units. Wendy's is also introducing a breakfast line, albeit on a cautious, store by store basis. The line is carried by some 70 restaurants.

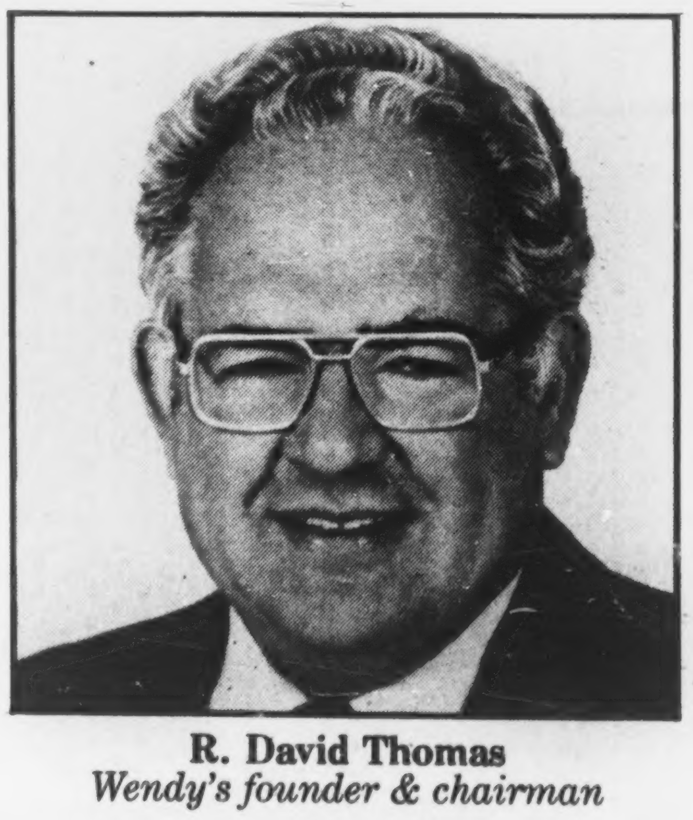
The dinner plates now being tested in 28 company-owned restaurants include a fish fillet, chili and spaghetti, beef with mushroom sauce, beef with gravy and chicken parmegiana.

How the new menu items will affect Wendy's sales remains to be seen. But increasing average store volumes is one major challenge for the 13-year old chain. In 1981, average unit sales were $673,600, up from the $627,100 the year before. Those numbers, however, are below those of the chain's prime competitors, McDonald's and Burger King. One way Wendy's will be looking to increase its return-on-investment is by building smaller, and therefore less costly units for certain markets.

But the overall pace of new building has slowed. High interest rates have particularly affected Wendy's franchisees, who last year opened 129 new units, down from the peak of 340 in 1979. This year, a total of about 215 new restaurants should be added to the system, about the same as last year.

Meanwhile, the Dublin, Ohio-based company continues expanding its new Sisters Chicken & Biscuit restaurant concept. By year's end a total of 36 Sisters are projected.

Wendy's, whose principal officers are founder and chairman of the board R. David Thomas and president and chief executive officer Robert L. Barney remains one of the few fast-food chains not gobbled up by a conglomerate.

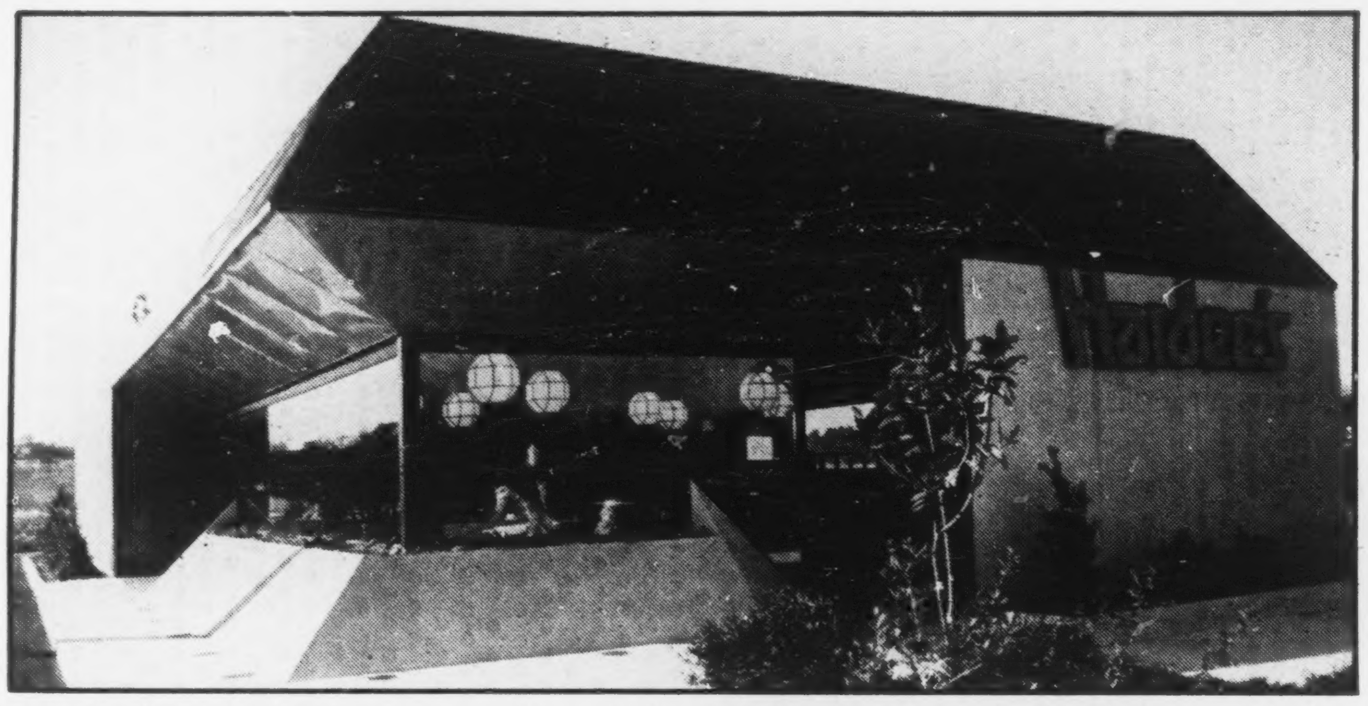


**R. David Thomas**
*Wendy's founder & chairman*

HARDEE'S

## Plan new burger rollout, more conversions

**Jack Laughery**
*president, ceo*



**Hardee's is testing a new unit prototype with an expanded kitchen containing both cold sandwich and heated make-up areas.**

ROCKY MOUNT, N.C.—Systemwide rollout of the bacon cheeseburger sandwich and the conversion of an undetermined number of Burger Chef stores to Hardee's prototypes will be the burger chain's main objectives for the first half of the coming year.

The bacon cheeseburger, adopted from the Burger Chef chain, will be in all stores by next March. Other items in test include a beef brochette platter, seafood platter, roast pork sandwich developed by a Hardee's franchisee and a roasted chicken dinner being tested in an Indianapolis Burger Chef unit.

Last month a new unit prototype, nicknamed the Dual Use Fast Feed, was opened in one location for testing. The new unit's kitchen has, in addition to a traditional cold sandwich make-up area with refrigerated condiments, a new heated make-up area which can hold hot, finger breakfasts and dinner platters; food from the new area passes through to a transfer bin where cashiers can pick it up.

Integrating the 700 new Burger Chef stores into the approximately 1,300-unit chain is being done very slowly, starting with a test market. Ten stores in Terre Haute, Ind., have been converted to Hardee's company-owned stores.

"How things go in this market," says Daniel Somers, senior vice president of finance, "will indicate the timing and pacing of future conversions." There is one original Hardee's in the Terre Haute market.

Beside the acquisition of the Burger Chef chain, Hardee's will continue to seek expansion, mostly from franchisees. Sommers estimates that the system will grow by 100 stores in the coming year, in addition to the year's possible 250 Burger Chef conversions.

### Personnel Changes

Lines of command at the chain recently underwent a number of changes with more day-to-day control going to president and ceo Jack Laughery. Precipitated by the resignation of marketing and operations vice president Bo Batchelder, the shake-up has resulted in senior vice presidents for operations and marketing reporting directly to Laughery.

Hardee's will continue its $4 million Road Runner ad campaign while launching a number of promotions in addition to the now two-month-old Smurf glass promo.

### HARDEE'S

Fiscal Year Ended March 31

| | 1980 | 1981 | 1982† | Current Fiscal Year* |
|---|---|---|---|---|
| Systemwide Sales (Billions) | $750M | $922M | $1.14 | $1.6 |
| Revenues (Where Different From Sales) (Millions) | $355 | $433 | $646 | |
| Operating Profit (Millions) | $25 | $32 | $42 | |
| Average Store Sales | $609,260 | $707,055 | $778,000 | $733,000 |
| Number of Units | 1,231 | 1,304 | 1,465 | 2,200 |

Source: NRN research

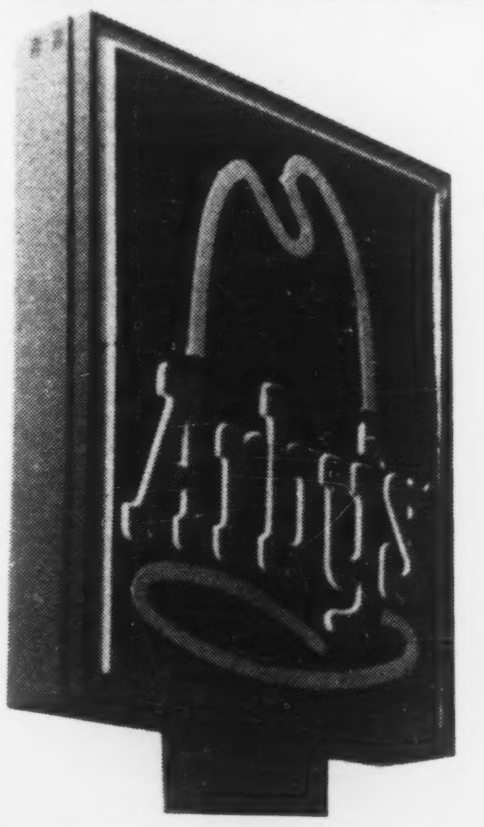
*Projected

†Does not include the 700 stores purchased from Burger Chef in March of 1982 just before the close of Hardee's fiscal year.

**Hardees has had no menu price increases in the past year.**

# NRN FOCUS

## BURGER SEGMENT



**Jeff McMahon**
*president, ceo*

### ARBY'S

Fiscal Year Ended Dec. 31

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| **Systemwide Sales (Millions)** | $432.9 | $477.5 | $526.5 | $591.3 |
| **Revenues (Where Different From Sales) (Millions)** | $75 | $70 | $70 | $85 |
| **Operating Profit (Millions)** | $11.0 | $6.6 | $7.9 | |
| **Average Store Sales** | $466,000 | $453,000 | $460,000 | $472,000 |
| **Average Check Per Person** | $1.70 | $1.86 | $2.08 | $2.15 |
| **Number of Units** | 928 | 1,053 | 1,144 | 1,252 |

Source: NRN research

*Projected

ARBY'S

## Greater penetration goal in existing major markets

ATLANTA—Arby's is testing a number of new sandwiches and has a new ad campaign set for fall. Broad strategy calls for greater penetration in already existing major markets.

Last month the chain began testing the new sandwiches in units close to headquarters. Experiments with hot and cold deli sandwiches similar to those rolled out this past year will probably be in all units by the end of 1982.

Larry Krueger, senior marketing vp, said that the company will be changing its ad campaign (although not its agency) this fall. The old campaign was designed to equate Arby's with roast beef sandwiches.

"We wanted to say, hey look at us world, we're roast beef," says Krueger. "Next year we will design a campaign that will create more of a desire for roast beef" over other types of fast food.

Despite the fact that "the market is no longer expanding," officers at Arby's say current sales and profits are better than they were this time last year.

"Unemployment is working against us," says Krueger, "but the cost of living, cost of food and increase in consumer spending are all in our favor."

Arby's expects systemwide sales to reach $591.3 million this year, up 12% from $527 million in 1981.

Increased sales, Krueger says, will come from the competition. Strategy emphasis will be on creating a point of difference for Arby's rather than building new stores. Nevertheless, as president of the Arby's Franchise Association, Krueger says that the company is still looking for franchisees to fill out some markets as well as expecting existing licensees to do the same.

The company will have built 108 stores by the end of this year, which Krueger says "is pretty close to plan. We knew money would be tight." No plans for store openings in 1983 have been set yet.

Other changes at Arby's include the ongoing remodeling program for company stores and the promotion of Jon Ritt from director of marketing research to vice president of marketing. Director of marketing research was a position created just for Ritt which Arby's now seeks to fill.

JACK-IN-THE-BOX

## Steps up drive to franchise 'substantial' number of units

SAN DIEGO—Jack-in-the-Box is developing, testing and rolling out new menu items and stepping up its efforts to franchise what one spokesman calls "a substantial number" of its existing 800 restaurants.

At the same time, the regional fast feeder is spending $37 million this year upgrading many older restaurants as part of an overall image enhancement program started in 1980, just after the chain closed nearly 300 units in the Midwest and East.

Since that time, Jack-in-the-Box, part of Foodmaker Inc., a subsidiary of Ralston-Purina, has reversed its fortunes: operating profits rose nearly fourfold from 1979 to 1981 even as the size of the chain shrunk from 1,044 to 795 units.

About 80% of Foodmaker's 1981 sales of $578.3 million came from Jack-in-the-Box. Foodmaker also operates 85 dinnerhouses with 24 different names and concepts in 14 states. Foodmaker's fast-food and full-service restaurants account for about 11% of Ralston-Purina's total sales and operating profits.

In the last two years or so, Jack-in-the-Box has added numerous products to its menu while removing some marginal performers. The new products fall into three basic categories: specialty sandwiches, croissant breakfast sandwiches and salad platters.

Prepackaged taco, chicken and chef's salads were rolled out this spring. Selling for $2.19 each, the salads have been performing well, according to Jay Brown, marketing vice president. "We expect most impact to be on lunchtime business," he said.

The new Crescent breakfast sandwiches were rolled out in late February, replacing French toast and omelets on the breakfast menu. Served on croissants (a flaky, crescent-shaped roll), the Crescent sandwiches are filled with an egg, two types of cheeses and a choice of ham, bacon or sausage; the price is $1.29. A Crescent Supreme, filled with an egg, two cheeses and bacon and ham sells for $1.45.

Breakfast sales chainwide have "about doubled" since the new sandwiches were introduced, Brown said.

Earlier this year, a fifth Supreme specialty sandwich—hot roast beef and cheese—was added to the Supreme sandwich line which includes a club sandwich, hot ham and cheese, chicken, and a bacon cheeseburger.

"They've done very well and are an important part of the sales mix," Brown said. Another Jack-in-the-Box executive recently was quoted as saying specialty sandwiches account for about 30% of unit sales.

Other new menu items are in the development stages and will be tested and rolled out in coming months, Brown said.

Meanwhile, Jack-in-the-Box is putting a franchising program into place. Three units have been sold to franchisees and in the next couple of years between 40% and 70% of all Jack restaurants will be franchisee-operated, according to Bill Rulon, Foodmaker's secretary and treasurer.

Rulon said Jack-in-the-Box will continue to operate a large number of its own restaurants. Expansion of the chain will be limited to only a few new stores in coming months as the franchising program is set up, he said.

Most Jack-in-the-Box restaurants are situated in the West and Southwest, with the heaviest concentration of units in California and Texas.

This year's capital spending program includes image enhancement of older units with exterior and interior design changes and the installation of computerized order-taking and checkout systems. About 70% of the units have already been renovated at costs ranging from $30,000 to $250,000 each.

*(Continued on page 66)*

### FOODMAKER INC.

Fiscal Year Ended Sept. 30

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| **Systemwide Sales (Millions)** | $549.6 | $512.4 | $578.3 | $620.8 |
| **Fast-Food Units** | $468.4 | $414.5 | $455.4 | $495.0 |
| **Full Service** | | $97.9 | $122.9 | $125.8 |
| **Operating Profits (Millions)** | $11.5 | $38.5 | $43.7 | $46.5 |
| **Average Store Sales Fast-Food** | $450,000 | $500,000 | $568,000 | $618,000 |
| **Full Service (Millions)** | | $1.4 | $1.5 | $1.6 |
| **Number of Units† Fast Food** | 1,044 | 803 | 795 | 800 |
| **Full Service** | | 72 | 85 | 85 |

Source: NRN research

*Projected

†Foodmaker Inc., a wholly owned subsidiary of Ralston-Purina, operates about 800 fast-food restaurants, most of them Jack-in-the-Box units, and about 65 full-service restaurants with many different names and concepts.

**Ralston-Purina does not break out sales and operating profits for its individual subsidiaries during the year. The company said at the end of its first half on March 31 that restaurant sales were up slightly over the same period a year earlier. Ralston-Purina reported total sales of $2.5 billion for the first six months of fiscal 1982; restaurants account for about 11% of that figure.**

# NRN FOCUS

## BURGER SEGMENT

### CARL KARCHER ENTERPRISES (CARL'S JR.)

**Fiscal Year Ended Jan. 30**

| | 1980 | 1981 | 1982 | Current Fiscal Year* |
|---|---|---|---|---|
| **Systemwide Sales (Millions)** | $138.6 | $171.9 | $200.6 | $250 |
| **Net Profit (Millions)** | $4.3 | $5.0 | $6.9 | $8.9 |
| **Average Store Sales** | $485,000 | $556,000 | $665,000 | $735,000 |
| **Average Check Per Person** | | $2.61 | $3 | $3.30 |
| **Number of Units** | 270 | 285 | 309 | 345 |

Source: NRN research

*Projected

**Menu prices increased about 13% in fiscal 1982.**

**In the first 16 weeks of fiscal 1983 ended May 21, Carl Karcher Enterprises Inc. reported net earnings of $2.4 million on sales of $64.2 million. The company operates more than 300 Carl's Jr. fast-food restaurants and two Sunshine Broiler full-service family restaurants. Figures for average store sales, average checks per person and number of units are for Carl's Jr. units only.**

CARL KARCHER

## First Carl's Jr. units in Arizona could open soon

ANAHEIM, Calif.—With new items on its menu, $15 million in company coffers from a recent stock sale and a new advertising campaign, Carl's Jr. is opening 35 restaurants in California and Nevada this year and for the first time is expanding outside that market and into Arizona.

Most of the Arizona development will take place in the Tucson and Phoenix Metropolitan Areas, according to Carl Karcher Enterprises Inc., the parent company. Most of the 309 Carl's Jr. restaurants are situated in the Los Angeles-Orange County area.

All restaurants in the system are serviced by a company-owned commissary and distribution center, which will be used by the new restaurants in Arizona as well. The company says recent surveys show that California and Nevada markets can support 200 additional Carl's Jr. restaurants.

Carl's Jr. is an upscale fast-food restaurant chain which sells hamburgers, a full line of breakfast products, a fried burrito called a Crispirito, and fish, chicken, roast beef, and steak sandwiches. Most units have a self-service salad bar and offer a special menu item for children.

Units are carpeted and have lightwood paneled walls. Food is cooked to order, except at peak hours, and hostesses bring meals to the customers. Average per-person checks are about $3. Menu prices rose about 13% in calendar 1981.

The company plans to heavily promote its breakfast menu which was rolled out chainwide last year. A Sunrise sandwich is the main breakfast item. A chicken sandwich was also rolled out in 1981 and the company introduced a Crispirito—a flour tortilla with ground beef, Swiss cheese and green chilies. There are plans for additional new product testings during the current year.

New television ads using the slogan, "Ooh, I like it," are being aired in California and Nevada. The ads concentrate on food quality and feature former child star Moosey Drier as a restaurant employee.

Average per-unit sales are now about $665,000. The 21 new restaurants which opened in 1981 reported average unit sales of $792,600 and one unit in California had annual sales last year of more than $1.5 million.

Carl Karcher Enterprises Inc. reported a net profit of $6.9 million on systemwide net sales of $200.6 million in fiscal 1982, ended Jan. 30. Sales rose 15.4% compared to fiscal 1981 as a result of new units, higher per-store sales and menu price increases.

In the first 16 weeks of fiscal 1983 ended May 21, the company reported a 126% rise in net income to $2.4 million on a 12% sales increase to $64.2 million.

Carl Karcher Enterprises also operates two Sunshine Broiler full-service family restaurants .

The company discontinued operations at its Taco de Carlos Mexican fast-food chain in 1981 and sold 16 units. The remaining seven units are in the process of being sold.

The 41-year-old company went public last fall, issuing 1.2 million shares and raising $15 million in equity capital.

It now costs approximately $756,000 to build a new Carl's Jr. unit from the ground up, with $275,900 for land; $338,000 for building; $96,000 for site improvements, and $146,000 for equipment.

Food and beverage costs were 35.6% of total sales in fiscal 1982, compared to 36.6% the previous year. Labor costs rose to 25.5% of sales from 24.8% in fiscal 1981.

Carl Karcher is chairman and chief executive and his brother, Donald Karcher, is president and chief operating officer.

SONIC

## Looks to strengthen unit management, test entree

OKLAHOMA CITY—Sonic Industries, operator of franchises and company-owned drive-in restaurants throughout the Southeast, is testing a new steak finger platter.

The company is testing the new menu item in Kansas City, northern Arizona and Houston. The initial results for the $2.95 plate of deep fried fingers, fries, gravy and toasted bread have been good and the new item could be rolled out companywide within six months if testing continues to be successful.

### Leadership

Much current attention is also going to strengthen unit management in the coming year. Of the 1,000 Sonic Drive Ins, 900 are franchised and have been the cause for concern by company officials.

"It's a mix of store level and middle management not staying long enough to make an investment in their future," says vice president Chet Horne. The result has been inconsistency in sales performance with the older franchisees doing much better.

Horne says last year was one of the best for many of the drive-ins, yet the company suffered an overall loss.

"Some managers are blaming the economy for poor sales, but overall it has not hurt the day-to-day operations financially," says Horne.

### Next Moves

An attempt is being made to consolidate geographically for easier supervision of managers.

The company plans to centralize at least three premium promotions during the coming year and will offer all stores promotional materials put together at store level. Previously franchisees paid for and designed their own promotional materials.

### SONIC

**Fiscal Year Ended Aug. 31**

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| **Systemwide Sales (Millions)** | $275 | $279 | $284 | $285 |
| **Revenues (Millions)** | $38 | $33 | $30 | $30 |
| **Net Profit** | $1.8 Million | $295,700 (Loss) | $538,400 | $1.8 Million |
| **Average Store Sales** | $232,000 | $248,440 | $265,000 | $257,600 |
| **Number of Units** | 1,182 | 1,123 | 1,046 | 1,004 |

Source: NRN research

*Projected

JACK-IN-THE-BOX

## Customer counts increase

*(Continued from page 64)*

None of the new products have necessitated any major equipment purchases. A special gadget is used to fry an egg in a crescent shape to fit on the croissant and small refrigeration units have been installed to hold the salads.

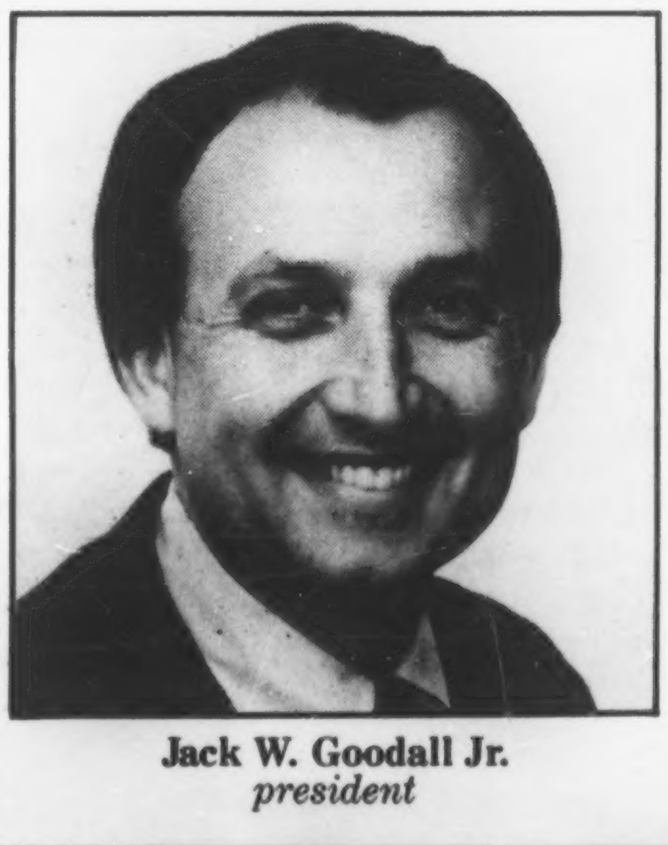
Sales and customer counts which were soft last fall and winter are "pretty strong" right now and the chain has been posting "very positive real growth," Brown said.

Jack-in-the-Box systemwide sales are expected to be close to $500 million by the end of the current fiscal year on Sept. 30. Foodmaker's operating profits are expected to rise to $46.5 million from $43.7 million in fiscal 1981 on an increase in systemwide sales to $620.8 million from $578.3 million.

Foodmaker's dinnerhouses, which include Barclay's Seafood, Peoria River Station and Carlos Murphy's Irish Mexican Cafe have an average unit volume of $1.6 million. The restaurants are expected to post systemwide sales of about $126 million this year.

Jack-in-the-Box has converted a handful of restaurants in Oklahoma to a healthy foods concept known as Apples but has no plans to expand the experiment or test other concepts in the near future, Rulon said.

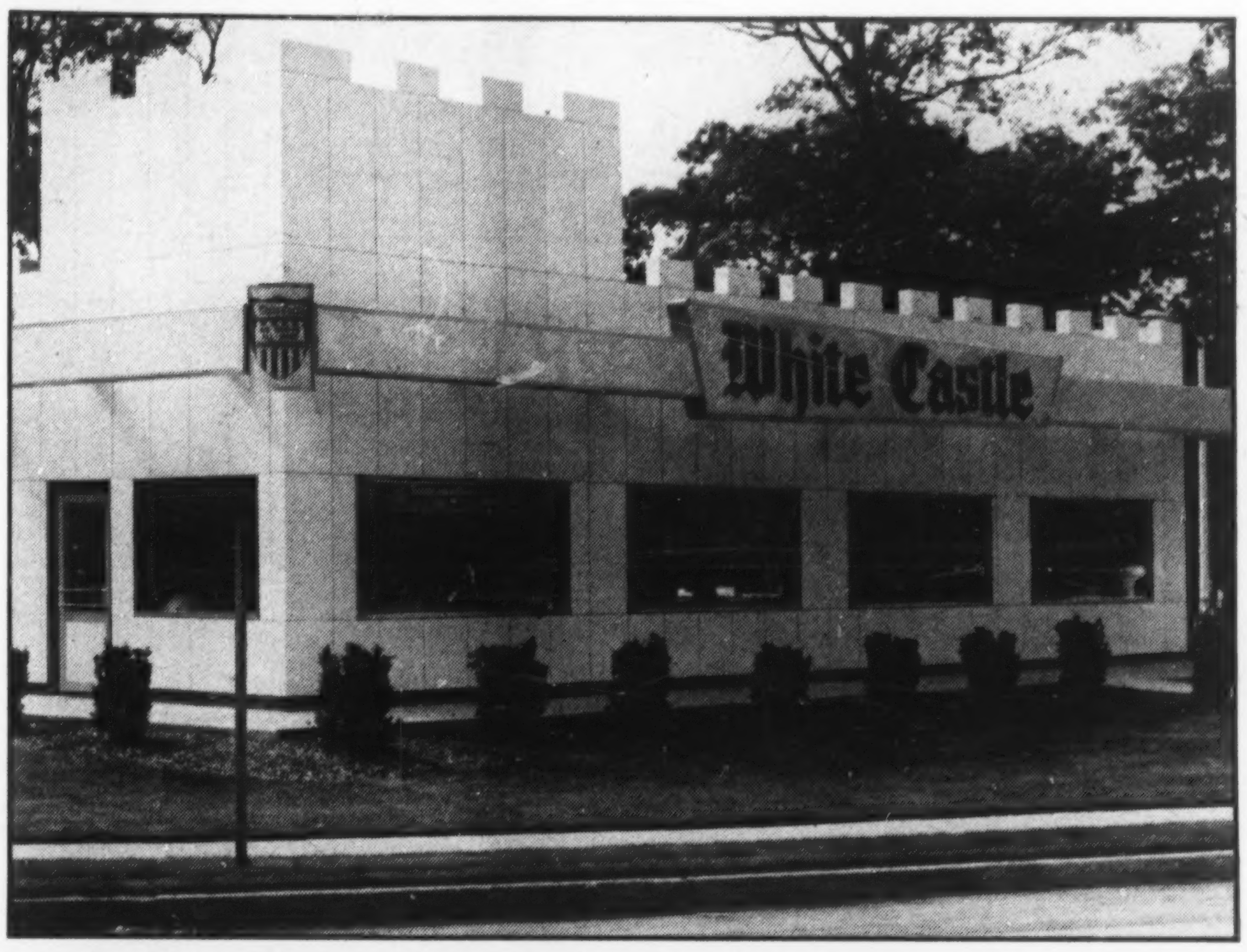
Jack W. Goodall Jr. is president and chief executive of Foodmaker Inc.



**Jack W. Goodall Jr.**
*president*

# NRN FOCUS

## BURGER SEGMENT



**The familiar suburban White Castle unit which has served the company so well may give way to more downtown and mall locations.**

WHITE CASTLE

## Walk-in and drive-thru units planned for chain's future

COLUMBUS, Ohio—TV's Jefferson's found their destiny "movin' on up to the East Side." White Castle officials say their thinking is that the burger chain's future may be in movin' on downtown or into shopping malls.

Traditionally, White Castle has gone with suburban locations. This year, however, a walk-in unit was tested in downtown Columbus; results are not yet conclusive. The company is considering other walk-in units, such as those found in suburban malls.

Two or three drive-in units are being planned for the coming year based on the great number of take-out sales per unit.

"But these will only be successful," says marketing vice president Russell Crouthers, "if the check size is high and people buy more than one burger."

White Castle has built a hamburger fortress based on its 24-hour stores and 28¢ hamburgers. The menu is still limited to burgers and a fish sandwich; menu development as most chain's practice it does not take place at White Castle.

The company has a record of steady sales growth and has achieved unit volumes of competitor's over 50 times its size. In the coming year White Castle will fund its new units with profits and not borrowed funds.

**E. W. Ingram Jr.**
*chairman of the board*

**Edgar W. Ingram III**
*president, ceo*

### *WHITE CASTLE*

**Fiscal Year Ended Dec. 31**

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| **Systemwide Sales (Millions)** | $147 | $156 | $172 | $184 |
| **Average Store Sales** | $955,000 | $981,000 | $1.06 million | $1.1 million |
| **Average Check Per Person** | $2.25 | $2.25 | $2.50 | $2.70 |
| **Number of Units** | 154 | 159 | 162 | 166 |

Source: NRN research

*Projected

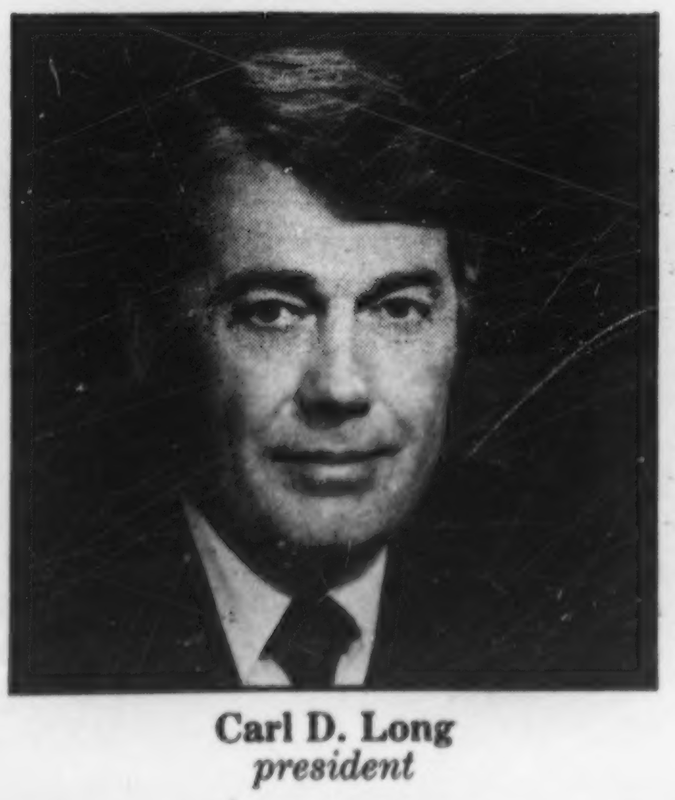
THE KRYSTAL CO.

## Po Folks deal signals beginning of a new era

CHATTANOOGA, Tenn.—The Krystal Company, operators of one of the country's original fast-food chains, starts a new era this month with the opening of its first franchised Po Folks restaurant in Jacksonville, Fla.

Krystal has signed an agreement to open 77 Po Folks in the next eight years in parts of Florida, Alabama, Mississippi, Arkansas, Virginia and North Carolina. A total of eight units will be developed by Krystal by the end of 1983.

A family restaurant chain specializing in Southern-style chicken and seafood, Po Folks is a privately owned company with about 25 restaurants. Po Folks earlier this year turned down Krystal's offer for a first refusal buy-out option linked to Krystal's decision to become a Po Folks' franchisee.



**Carl D. Long**
*president*

"Po Folks is what everybody in the business is looking for," Gordon Davenport, chairman of DavCo Food Inc., a Krystal subsidiary, said at the time the agreement was signed. "We were looking for something to diversify with that wasn't beef related. We're hedging our bets on the price of beef this way."

Davenport said Krystal had surveyed 175 companies for diversification purposes but "Po Folks was head and shoulders above the rest as having the best investment-to-sales ratio."

(The average Po Folks unit has annual sales of about $900,000. The 4,000-sq.-ft. units seat 150. Most Po Folks are in converted restaurants; conversion costs are about $100,000 per unit. A new Po Folks unit costs $350,000 to build.

In addition to its 210 company-owned Krystal hamburger restaurants, the Krystal Company also operates 66 franchised Wendy's restaurants in Baltimore, Washington and St. Louis and three family restaurants known as The Loft in Chattanooga, Memphis and St. Louis. The Wendy's units are operated through the DavCo subsidiary.

Founded 50 years ago in Chattanooga, Krystal's fast-food hamburger restaurants specialize in low-priced hamburgers, chicken and breakfasts. Krystal's 1-oz. burger sells for about 31¢. The company recently rolled out a biscuit breakfast menu which includes six biscuit-based items priced from 45¢ (for a biscuit with honey or jelly) to 95¢ (for a steak and biscuit sandwich).

A 69¢ chicken sandwich which uses the hamburger roll was rolled out this year in all Krystal restaurants.

Though Krystal has a low per-person check average of $2.14, average unit sales are approaching $700,000 this year. Systemwide sales are about $150 million.

Rody B. Davenport III is chairman of The Krystal Company and Carl D. Long is president. Gordon Davenport is chairman of DavCo Food Inc. and Clyde E. Culp is president.

### *KRYSTAL*

**Fiscal Year Ended Dec. 31**

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| **Systemwide Sales (Millions)** | $119.0 | $120.0 | $138.5 | $150.0 |
| **Average Store Sales** | $600,000 | $620,000 | $687,000 | $700,000 |
| **Average Check Per Person** | $1.90 | $1.97 | $2.14 | $2.14 |
| **Number of Units** | 198 | 204 | 210 | 218 |

Source: NRN research

*Projected

**Krystal has not raised menu prices this year; menu prices were raised 8½% in 1981.**

**Krystal reported systemwide sales of $31.4 million in the first quarter of 1982.**

# NRN FOCUS

## CHICKEN SEGMENT

# Newcomers pressuring fast-food chicken titans

By Rurick Telberg

Spicy chicken, biscuits and breakfast figure to play an increased role as insurgent fast-food fried chicken chains battle for market share.

The real action in the chicken segment is among the up-and-coming chains which were full-born with new menu items that the titans of the industry are finding hard to standardize for chainwide use.

Kentucky Fried Chicken is testing a biscuit breakfast but its main growth this year will be overseas. Apparently Heublein strategists see a KFC-saturated United States.

Church's is still running a distant second but is showing profit gains despite a recession-driven sales slump.

KFC secured the Houston market from a 70-unit Church's franchisee in a move Church's is challenging in court. The move would seem to hurt Church's—Houston is in the backyard of the San Antonio company—more than it helps KFC.

Up-and-comers include Popeye's which is becoming a national presence. The Louisiana-based chain is credited with popularizing spicy chicken.

Bojangles, a Horn & Hardart property, could double in size this year with 100 new units. Mrs. Winner's is battling Bojangles in the Southeast with biscuits.

Dairy Queen and Shoney's Inc. will both be contenders in the segment with their new acquisitions, Golden Skillet and Famous Recipe, respectively.

In the crossover to the dinnerhouse style, Grandy's of Texas seems poised to go public, but Sister's, a Wendy's concept, is still proceeding with caution.

Ron's Krispy and Tinsley's have carved out strong bases in Texas, as has Pioneer in Los Angeles.

Chick-fil-A expects solid growth despite the fact it is a strictly mall-sited operation. And Chicken George is reporting phenomenal volumes in its inner-city stores.

### CHURCH'S

# Chain is battling back with new strategic plans

SAN ANTONIO—Buffeted by the loss of 77 franchised restaurants in the Houston market area and continued high unemployment among its large customer base of inner city poor, Church's is reacting with strategic menu changes, a new heavily backed ad campaign, and increasing efficiencies at the unit level.

The program promises to maintain and boost a strong bottom line, even while systemwide sales and revenues linger in doldrum latitudes.

Latest Church's move is the current rapid rollout of french fried okra, in progress at presstime. Roger Harvin, board chairman, said the decision to move the company's newest product into all 1,027 chicken stores was based on "an excellent level of acceptance in all areas of the country."

Most important to menu strategy is Church's repositioned chicken menu. Two pieces of all-white had been selling for $1.29, two pieces of all dark for $1.19 and one white plus one dark piece for $1.09. Now in low income areas the popular all-dark order has been dropped to $1.04. The all-white order, popular in higher income areas where customers actually said they felt prices were too low, was raised to $1.34.

The net effect, said Harvin, is to raise prices 1.5% to 2%. Meanwhile, he said, the change is boosting sales in key markets like Cleveland.

The program will have other advantages including substantial cuts in product waste, Harvin said.

Backing product changes and also fitting in neatly with Church's current expansion strategy is its new "We make chicken a juicy deal" ad campaign. Based on research showing that most people think fried chicken is greasy, a new ad agency developed the campaign. The word 'deal' refers to the fact that Church's tries to underprice competitors from 5% to 20% depending on the market.

Bill Storm, financial vice president, said the campaign fit into Church's five-year plan to establish a strong presence in suburban shopping malls of key cities.

Chicago, Detroit and Los Angeles were identified by Storm as "major cities that are important to our company store strategy."

The company also plans a strong marketing and advertising push into locales where it has only a minor presence but thinks it can have a major one. Atlanta is one such market and Storm noted that $600,000 was earmarked for Church's advertising in Atlanta this year.

Increased efficiency and the potential for a renewal of rapid expansion are also promised in a space-saving store design and modular construction method. Along with more sophisticated site selection, the improvements are already showing results, Harvin said.

(Continued on page 74)

### KFC

# Segment leader embarking on rapid foreign expansion

LOUISVILLE, Ky.—Threatened with domestic market saturation like other major fast-food chains, Kentucky Fried Chicken is embarking on an era of rapid foreign expansion while opening domestic restaurants at the modest pace of about 100 new units per year.

Of the more than 6,300 KFC restaurants now operating worldwide, about 1,300 are situated in foreign countries with the heaviest concentration in Japan and Australia. Those units are reporting volumes well in excess of the average unit sales for domestic KFC restaurants: $452,000 at company-owned units and $350,000 at franchised units.

In Australia, where KFC has 145 company-owned and 65 franchised restaurants, average unit sales were $712,000 in 1981, up 19% over the previous year. Average unit sales in Japan, where KFC has more than 350 restaurants, were $585,000.

In addition to expanding in existing overseas markets, KFC-International is "pursuing opportunities in relatively untapped markets, such as continental Europe, South America and the Pacific," according to Michael A. Miles, senior vice president-foods for Heublein Inc., KFC's parent.

KFC-International is Heublein's fastest-growing business. Between 1978 and 1981, revenues doubled to $256 million and operating profits nearly tripled to more than $28 million. In that period, the number of overseas units increased from 941 to 1,256 and, Miles said, "we have only scratched the surface of KFC's overseas potential."

Heublein has not made public its timetable for overseas expansion except in Japan, where it plans to add 30 units per year in the next several years.

Domestic expansion is concentrated in the mid-Atlantic states and the Houston area where KFC is adding restaurants through conversions of acquired properties. In a deal with Marriott Corp. earlier this year, KFC agreed to buy 80 Gino's restaurants on the Eastern Seaboard and has an option to buy others.

As part of the deal, KFC Corp. also acquired the master development rights for New Jersey, Maryland, Delaware and Washington, D.C. and parts of Pennsylvania and Virginia.

At the time of the purchase, Miles said this will be "the first really serious KFC development in that area."

KFC is also converting about half of the 80 former Church's units in Houston that it acquired from Host International. The others will be sold. In the next few years, KFC will open about 100 domestic restaurants per year.

Meanwhile, KFC is stepping up its tests of biscuits, a Southern-style menu with spicy chicken and breakfast.

Customer traffic was off in the first three months of the year, KFC's third quarter, due to severe winter weather and the high rate of unemployment in the Midwest.

Operating profits for those three months were $2.2 million, a "significant decline," according to the spokesman. Operating profits for Heublein's food service and franchising group (the corporate name for KFC Corp.) were estimated to be about $34 million on systemwide sales of $2.4 million for fiscal 1982 ended June 30. (This issue went to press before all figures were in.)

KFC Corp. also operates two other restaurant chains. H. Salt, a mostly franchised fast-seafood chain with 108 units on the West Coast, is testing a fish kabob product. No unit expansion is planned. Zantigo, a Mexican fast-food chain with 61 units, is testing several new menu items. Per-unit sales at Zantigo are about $450,000.

### *KFC*

**Fiscal Year Ended June 30**

| | 1980 | 1981 | 1982* | Current Fiscal Year* |
|---|---|---|---|---|
| Systemwide Sales (Billions) | $2.0 | $2.1 | $2.4 | $2.6 |
| Operating Profit (Millions) | $32.6 | $40.8 | $34.0 | |
| Average Store Sales | $350,000 | $427,000<br>(company)<br>$341,000<br>(franchised) | $452,000<br>(company)<br>$350,000<br>(franchised) | $500,000<br>(company)<br>$375,000<br>(franchised) |
| Number of Units | 6,200 | 6,242 | 6,304 | 6,400 |

Source: *NRN* research

*Projected

**KFC raised menu prices about 5% this year.**

**Systemwide sales and operating profits for KFC Corp. for the fourth quarter and fiscal 1982 ended June 30 were not available as this issue went to press. Operating profits in the third quarter ended March 31 were $2.2 million; operating profits for the first nine months of 1982 were $24.8 million.**

# *CHICKEN SEGMENT*

## *CHURCH'S FRIED CHICKEN*

**Fiscal Year Ended Dec. 27**

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| **Systemwide Sales (Millions)** | $408.3 | $466.1 | $512.0 | $520.0 |
| **Revenues (Where Different From Sales) (Millions)** | $348.4 | $391.8 | $420.2 | $430.0 |
| **Net Profit (Millions)** | $36.2 | $38.1 | $44.6 | |
| **Average Company-owned Store Sales** | | | | |
| **Church's** | $410,000 | $403,000 | $400,000 | $415,000 |
| **G. W. JR's** | $348,000 | $363,000 | $387,000 | $405,000 |
| **Average Check Per Transaction** | | | | |
| **Church's** | $2.53 | $2.70 | $2.78 | $2.85 |
| **Number of Units** | | | | |
| **Church's** | 1,091 | 1,225 | 1,315 | 1,310 |
| **G. W. JR's** | 34 | 35 | 48 | 60 |

Source: NRN research

*Projected

**For the first six months ended June 13 Church's reported net profit of $18.2 million on revenues of $189 million.**

## *POPEYES*

**Fiscal Year Ended Oct. 25 (Fiscal 1981)**

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| **Systemwide Sales (Millions)** | $90.1 | $113.0 | $142.2 | $185.0 |
| **Revenues From Company Operations (Millions)** | $34.1 | $35.0 | $39.1 | $45.0 |
| **Net Profit (Millions)** | $0.73 | $0.79 | $2.40 | |
| **Average Store Sales** | $501,500 | $530,000 | $575,000 | $625,000 |
| **Average Check Per Person** | $3.35 | $3.50 | $3.70 | $4.00 |
| **Number of Units** | 214 | 257 | 275 | 380 |

Source: NRN research

*Projected

**Popeyes has raised prices at company-owned units on its chicken dinners (all sizes) by about 10 cents so far this year.**

**Popeyes is a privately held company and does not issue quarterly reports; the company projects systemwide sales of $185 million for fiscal 1982, ended Oct. 25.**

### CHURCH'S

## *New menu items are key to chain's comeback plans*

*(Continued from page 73)*

New stores, opened in the last year, are experiencing sales at a $582,000 a year rate, according to Harvin. Average store sales are about $400,000 a year.

The company has also come up with a new seatless unit, that can be put up either with or without a drive-through window. Church's does 85% of its business in takeout. In some markets it just doesn't need—and shouldn't have—seats.

For the first half ended July 13 net profit fell slightly to $18.2 million, from $19.6 million for the same period last year, while revenues moved down to $187 million for the period from $190 million a year earlier. Net profit margin for the half, however, was a relatively healthy 9.73% and for the second quarter alone 10.37%.

### POPEYES

## *Spicy chicken innovator set for aggressive expansion*

JEFFERSON, La.—Popeyes Famous Fried Chicken, the 10-year-old chain often credited with sparking the growing interest in spicy fried chicken, plans aggressive domestic and foreign expansion in 1983.

On tap for the coming year, too, is the introduction of a breakfast menu and a dessert product. The company will also offer a biscuit program to franchisees; in recent weeks made-from-scratch biscuits were rolled out in all 75 company-owned units.

Construction has begun on a family restaurant prototype in a New Orleans suburb. The 100-seat restaurant will have a more upscale decor than Popeyes' fast-food units but will offer basically the same menu. It will open this fall.

Domestic expansion next year will be concentrated in the mid-Atlantic and Southern States and in the Chicago area. Overseas, Popeyes plans to open units in Singapore, Malaysia, parts of the Middle East and in the Caribbean. The company already has units in the Far East, Puerto Rico, the Bahamas, Bahrain and Egypt. Negotiations are under way with prospective franchisees in Britain, Germany and Japan.

Primarily a franchised operation, Popeyes' rate of expansion was slower than expected this year because of high interest rates, according to company spokesmen. However, they said the situation has improved to the point where franchisees can start opening new units on schedule.

Popeyes, a privately held company, is opening its first regional office this year to serve the Chicago area, which now has 13 restaurants. About 17 sites have been purchased or leased there for new units.

Six or seven Popeyes restaurants are opening by the end of the year in Washington, Virginia and Maryland, including the company's first three in Baltimore. Other developments will take place in Florida, Georgia, Mississippi, Alabama, Texas and Louisiana, with development in the west "further down the line," according to William Copeland, executive vice president.

Most Popeyes' restaurants will continue to be freestanding units built from the ground up alongside highways or adjacent to suburban shopping centers, although storefront sites in urban areas will be developed, too.

The cost of building and equipping new units ranges from $220,000 for a 1,380-sq.-ft. restaurant with 18 seats to about $270,000 for a 2,145-sq.-ft. restaurant with 48 seats, according to Terrel A. Rhoton, vice president of franchise sales and technical services. Land costs are extra.

Like most chicken chains, Popeyes has a strong takeout business which, according to Rhoton, accounts for about 70% of total unit volume. Between 40% and 45% of unit sales are from drive-through windows. Average sales are expected to be in the $600,000-$625,000 range on per-person check averages of $4 by the end of the year.

Popeyes continues to operate one restaurant in an enclosed mall near New Orleans but does not plan any mall expansion.

The new biscuit program was developed and tested over a 15-month period. The made-from-scratch biscuits have replaced dinner rolls in company-owned units and are sold separately for 27¢ each. Dinner prices have been raised about 10¢ to cover the additional costs.

The biscuit rollout is the first step in the development of a biscuit-based breakfast menu which will be tested and possibly rolled out in the next 12 months, Copeland said.

The Popeyes Family Restaurant is under construction in Morgan City, La. "It's an experiment," Copeland explained.

Popeyes reported a net profit of $2.4 million systemwide sales of $142.2 million in fiscal 1981. Sales were up 3% after factoring out menu price increases, Rhoton said. Projected sales for the current fiscal year are $185 million.

Customer traffic has been up so far this year, Copeland and Rhoton said, except in parts of the upper Midwest. The executives believe Popeyes has benefited from the recession because many customers have traded down to less expensive fast-feeders. The number of working women has also helped Popeyes dinner sales, Rhoton said.

# *DINNERHOUSES*

## To bring customers back, segment tries new concepts

**By Charles Forman**

**The dinnerhouse segment today makes many think of the airlines: For years the carriers begged and borrowed to get planes and fought with each other and the Government to get routes. Now they can't fill the seats.**

**To fill many empty dinnerhouse seats across the land, some chains are either converting units to the hottest menu concepts: barbecue, barbecued ribs and Mexican (see separate Mexican dinnerhouse story, page 95). Or they are pushing into the "fun and food" specialty area pioneered on a large scale by T.G.I. Friday's.**

**Several once mainstream concepts seem to be floundering in a slump. Quaker Oats finally divested itself of Magic Pan recently to let Bay Bottlers Ltd. try to bring back its glory days. Meanwhile, the Victoria Station board apparently vetoed Terrance Collins' turnaround strategy there for a new concept. Collins was replaced as ceo by International Multifoods restaurant vp Richard Niglio.**

**In one major metro market, a Marriott Joshua Tree (beef-centered)**

*(Continued on page 91)*

# NRN FOCUS

## DINNERHOUSES

### RED LOBSTER INNS

Fiscal Year Ended May 31

| | 1980 | 1981 | 1982 | Current Fiscal Year* |
|---|---|---|---|---|
| Systemwide Sales (Millions) | $400 | $505 | $625 | $750 |
| Average Store Sales (Millions) | $1.6 | $1.9 | $2.0 | $2.1 |
| Number of Units | 260 | 291 | 330 | 365 |

Source: NRN research

*Projected

Red Lobster
FINE SEAFOOD
RAW OYSTERS
Cocktail Lounge
STEAK N LOBSTER
A REAL TREAT

RED LOBSTER INNS

## Wine lists lynchpin to expansion

ORLANDO, Fla.—Red Lobster Inns, the flagship of the General Mills restaurant group, will be experimenting with wine lists and a new fish product this year as they build 35 to 40 new units.

Red Lobster, which finished fiscal 1982 in May with $625 million in sales and 330 restaurants, has earmarked its main expansion drive for California where it has only five restaurants now.

Northern and central California will bear the brunt of the development, though Red Lobster officials do not say how many units will be built where.

The chain has five units in the state now—two in Los Angeles and one each in Modesto, Sacramento and Bakersfield.

A lynchpin to the California plan will apparently be the introduction of wine lists. Executives apparently believe that the wine lists, tested elsewhere, will be a big hit in wine-conscious California.

Red Lobster is also testing a new fish called a Golden Pacific Roughie. The fish, caught in the south Atlantic off the coast of Australia, reportedly has a finer texture than haddock or cod.

It is being tested in 27 restaurants scattered across the country where it is offered three ways—broiled and served with spinach, broiled and topped with parmesan cheese and broiled in butter.

Red Lobster figures to hold steady to its growth path with 365 restaurants and sales of $750 million due by this time next year.

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CHART HOUSE INC.

## Attention focused on Cisco's, Luther's

LAFAYETTE, La.—With the naming of an executive vice president for its Luther's division and the establishment of a new headquarters for its Cisco's dinnerhouses, Chart House Inc. plans to expand its two newest concepts in 1982.

The diversified restaurant company hopes these two operations will contribute to a healthy increase in profits. The company earned $17.7 million in 1981 on sales of $353.9 million. Chart House profits have increased by about 20% each year since 1978.

Cisco's Cafe, a Mexican dinnerhouse concept originally devised to supplant the company's faltering Cork 'N Cleaver restaurants, came into its own during 1981, when several of the steakhouses were converted into Cisco's units. Meanwhile, the company erected its first freestanding Cisco's—a prototype for future development.

Luther's, a fast-food style barbecue concept the company recently acquired, appears to be poised on the brink of major expansion through franchising. Michael Blackmon, its newly named executive vice president and chief operating officer, is reportedly closing deals for development rights in several large Sunbelt markets.

Growth of the embryonic 10-unit chain hinged on the development of kitchen equipment which could produce large amounts of barbecue with the ease necessary for a franchised operation. The Houston-based Luther's operation was brought under the Chart House umbrella to build the chain into a frachisor as well as a dinnerhouse operator and the largest Burger King franchisee.

Chart House's 378 Burger King

(Continued)

### CHART HOUSE

Fiscal Year Ended Dec. 31

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| Systemwide Sales (Millions) | $274.0 | $312.5 | $353.9 | $405.0 |
| Net Profit (Millions) | $12.4 | $15.0 | $17.7 | $19.8 |
| Average Store Sales | | | | |
| Luther's** | | | $1.2 Million | |
| Cisco's Cafe** | | | $1.3 Million | |
| Burger King + | $637,000 | $704,000 | $745,000 | |
| Cork 'N Cleaver | $783,000 | $792,000 | $885,000 | |
| Chart House | $1.6 Million | $1.2 Million | $1.3 Million | |
| Average Check Per Person | | | | |
| Luther's** | | | $4 | |
| Cisco's Cafe** | | | $10 | |
| Burger King | $2.72 | $2.89 | $2.99 | |
| Cork 'N Cleaver | $12.81 | $14.71 | $14.03 | |
| Chart House | $14.71 | $16.08 | $17.40 | |
| Number of Units<br>Luther's** | | | 10 | |
| Cisco's Cafe** | | | 12 | |
| Burger King | 351 | 365 | 370 | |
| Cork 'N Cleaver | 61 | 67 | 57 | |
| Chart House | 40 | 43 | 48 | |
| Total Units | 458 | 477 | 498 | 515 |

Source: NRN research.

*Projected

+Company-owned only

**Newly developed restaurant concepts. No figures available prior to 1981.

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## New concepts are designed to bring the customers back

(Continued from page 74)

**metamorphised within just months into a J. T.'s (adult fun) and then a Casa Maria (Mexican).**

**Only a few hundred yards away, a Campbell's Hanover Trail (a limp performing, somewhat upscale budget steakhouse) became a J. T. McDoogal's (fun and food) at exactly the same time.**

**Perhaps most exciting is El Torito's expansion of its Tequila Willie's concept. The Grace subsidiary idea is to combine the best of the Mexican dinnerhouse concept with the best of the adult fun idea.**

**Meanwhile, the seafood segment continues to perform strongly.**

**Gilbert-Robinson has said it will be expanding its Bristol Bar & Grill into St. Louis, Atlanta and other cities.**

**General Mills Red Lobster will push hard ahead into West Coast markets where it only has a minimal presence now, taking on strong native competition, especially from Hungry Tiger.**

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# NRN FOCUS

## DINNERHOUSES

### W. R. GRACE RESTAURANTS

**Fiscal Year Ended Dec. 31**

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| **Sales (Millions)** | | | | |
| **Coffee Shops** | $139.0 | $179.0 | $183.0 | |
| **Dinnerhouses** | $226.0 | $298.0 | $363.0 | |
| **Fast Food** | $22.0 | $48.0 | $52.0 | |
| **Total Sales** | $387.0 | $525.0 | $598.0 | $620.0 |
| **Number of Units** | | | | |
| **Coffee Shops** | 190 | 219 | 229 | 229 |
| **Dinnerhouses** | 179 | 224 | 246 | 255 |
| **Fast Food** | 151 | 173 | 147 | 147 |

Source: NRN research

*Projected

**Menu prices dropped slightly during the first six months of fiscal 1982 at Grace's coffee shops.**

**W. R. Grace restaurant subsidiaries reported operating income of $1 million on sales of $154.6 million in the first quarter, ended March 31.**

**W. R. Grace has three restaurant divisions. Far West Services operates Coco's and Jojo's coffee shops and about 100 dinnerhouses with various names and themes, including Baxter's, Baxter Street, Moonraker, Plankhouse, and Reuben's. Three dinnerhouses have been converted to Tony Roma's rib restaurants in a joint venture. Gilbert/Robinson operates 68 casual restaurants, most of which are Houlihan's Old Place. Other Gilbert/Robinson restaurants are Annie's Sante Fe, Bristol Bar & Grill, Fred P. Ott's, Sam Wilson's, and several one-of-a-kind restaurants. El Torito-La Fiesta operates a number of Mexican dinnerhouses, including El Torito, Who-Song and Larry's, Rosa Corona, and Tequila Willie's. Grace's fast-food units are Del Taco Mexican restaurants**

CHART HOUSE INC.

## Emphasis shifts for better balance

*(Continued from page 91)*

units in the Midwest, including the 101 units the company subfranchises, have recently completed a comprehensive physical upgrading program. The "grand slam" effort was aimed toward improving sales in Chart House's first large market by rehabilitating older stores.

But the company's Burger Kings may need more than a facelift. Reeling in the aftermath of a harsh winter and still grappling with a recessionary economy, the division reportedly posted average unit sales about 5% lower than the chainwide average of about $760,000 in 1981.

One strategy to maintain market position for the Burger Kings involves price. Although management may increase prices in its system by about 2% by the end of the year, it has not hiked prices for the last 18 months.

But Chart House seems to want to shift its resources into other segments such as the Mexican dinnerhouses, Luther's and its steakhouse division.

William Hyde, the new president and chief executive officer of Chart House, is expected to soon unveil a far-reaching plan expressing the company's desire to balance its operations evenly between all four divisions.

VICTORIA STATION

## New ceo faces tough job to maintain recovery pace

**By Richard Martin**

LARKSPUR, Calif.—Richard A. Niglio, Victoria Station's new president and ceo, is faced with some tough decisions as he takes up the reigns of his new company this month. First among them may be a decision on whether or not to adopt elements of predecessor Terrance Collins' concept-research studies in order to further VS's recovery momentum.

Victoria Station, which recently wrote its annual bottom-line figure in black ink for the first time in three years, was thought to be on the verge of launching a completely revised restaurant concept in a San Diego test when Collins abruptly resigned effective Aug. 1. The future of such plans is now in doubt.

Collins' final letter to stockholders outlines short- and long-term strategies for boosting deteriorating customer counts. The plans, including addition of a Cordon Bleu-trained executive chef and a 50% reduction in the number of tables assigned to waiters, were contained in a new age-flavored 1982 annual report, issued last month, which bears what looks like the prototype for a new, upbeat company logo on its cover.

Niglio has said it is still too early to determine a course of action until

*(Continued on page 118)*

FAR WEST SERVICES

## New menu items for Jojo's; two joint ventures planned

IRVINE, Calif.—Far West Services is preparing to roll out new salad entrees, desserts and a breakfast special at its Jojo's coffee shops. The items are in test at 16 Jojo's in various markets.

One of W. R. Grace's three restaurant divisions, Far West Services operates 111 Coco's coffee shops, 118 Jojo's and about 100 dinnerhouses with various names and themes. The company is also involved in a joint venture with Tony Roma's at three rib restaurants.

The company has signed a joint venture agreement with Po Folks, a small seafood and chicken chain, to convert about three coffee shops in what a spokesman calls "isolated areas" to the Po Folks theme.

Far West's dinnerhouses include Reuben's , the Plankhouse, Baxter Street, Reuben E. Lee, Baxter's, Sandpiper, Summerhouse and other concepts. Far West also operates two musical dinner theaters called Baxter Street and Tibbie's Music Hall. A third musical dinner theater was opened in July at the Reuben E. Lee riverboat restaurant in Newport Beach, Calif.

Three Far West dinnerhouses in Atlanta and Dallas have been converted to Tony Roma's barbecue restaurants.

W. R. Grace, the New York-based conglomerate, owns 246 dinnerhouses (including those operated by Gilbert/Robinson, Far West and El Torito), 229 coffee shops and 147 fast-food Mexican restaurants (Del Taco). Most of Grace's restaurants are situated in California, Texas, Georgia and Missouri.

In the first quarter ended March 31, Grace's restaurant subsidiaries reported an operating income of $1 million on sales of $154.6 million, compared to $100,000 operating income on $140.9 million on sales in the first quarter of 1981.

Expansion of Del Taco, which has incurred heavy operating losses since 1979, its first full year of operation after its acquisition by Grace, has been halted.

GILBERT/ROBINSON

## Bristol Bar performs well

KANSAS CITY, Mo.—Those industry experts who believe that a major restaurant trend of the 1980's will be cooking most dishes in the dining room in full view of customers are watching the performance of Bristol Bar & Grill, Gilbert/Robinson's newest dinnerhouse concept.

Specializing in fresh seafood, the Bristol restaurant in Kansas City cooks everything out front, where diners can watch their fresh oysters, fish fillets and other items being prepared.

The Bristol prototype has performed well enough to convince company executives to expand the concept to other cities. A Bristol will open in St. Louis by the end of the year and a unit under construction in Atlanta will be ready by early 1983.

Gilbert/Robinson, part of W. R. Grace Co., the New York-based conglomerate, is best known for Houlihan's Old Place, the casual restaurant chain which has been copied far and wide by other companies such as Steak and Ale (with its Bennigan's chain), Carlson Companies (TGI Friday's) and Campbell (H. T. McDoogal's), plus a host of smaller chain and independent operators.

Never a company to overexpand, Gilbert/Robinson has developed Houlihan's slowly and carefully. At the end of 1981, there were 43 Houlihan's:

Houlihan's, which helped define the casual theme restaurant trend of the 1970's, are known for their eclectic design (units are filled with all sorts of antiques and memorabilia from other eras), a menu which emphasizes finger foods and specialty drinks and a fun ambience.

Gilbert/Robinson was acquired by W. R. Grace in 1978. In addition to Bristol Bar & Grill and Houlihan's, the company operates eight Annie's Santa Fe Mexican restaurants; six Sam Wilson's beef dinnerhouses; two Fred P. Ott's and several one-of-a-kind specialty restaurants, including Plaza III, Cap't. Jeremiah Tuttle's and the Buena Vista Cafe.

There will be 68 Gilbert/Robinson restaurants in 22 states and 32 different markets at the end of the year. Total sales in 1981 were estimated to be about $112 million.

### VICTORIA STATION

**Fiscal Year Ended March 28**

| | 1980 | 1981 | 1982 |
|---|---|---|---|
| **Systemwide Sales (Millions)** | $128.2 | $134.9 | $123.9 |
| **Net Profit (Millions)** | –$1.3 | –$6.2 | $1.2 |
| **Average Store Sales (Millions)** | $1.3 | $1.4 | $1.3 |
| **Average Check Per Person** | | $14.00 | $14.50 |
| **Number of Units** | 93 | 99 | 98 |

Source: NRN research

NRN FOCUS

MEXICAN SEGMENT

# *Optimism abounds among dinnerhouses*

**By Donald Frazier**

In a year of recession, retrenchment and the reconsideration of yesterday's hopeful plans, one segment of the industry is acting like it's still the go-go 1960's instead of the go-slow 1980's.

The companies in the hot new segment—the Mexican-style dinnerhouses—are generally still too small to make the Top 100 list. But they are growing by leaps and bounds, seemingly unfettered by the financing problems and the price-cost squeeze that afflict the rest of the industry.

And some of the largest concerns in food service—Chart House, Ponderosa and the W. R. Grace companies among them—have seized on the Mexican-style concept as a growth vehicle high-powered enough to diversify their customer bases and thus insulate their operations from the harsh economy of the Reagan era.

Mexican-style dinnerhouses are now a significant part of the chain restaurant scene in several Midwestern cities. Skirmishes are shaping up between several of the major companies in test markets such as Columbus, Ohio, Kansas City and Omaha. Companies are moving their forces into position for an assault on the big plum: Chicago. And they are even sending scouts to that dreaded netherworld of the chain restaurant business: the Northeastern seaboard.

A few of the companies taking part in the new Mexican revolution are independent. Chi-Chi's, a 55-unit half-franchised chain based in Louisville, is privately held. An 11-unit chain based in Phoenix, Garcia's of Scottsdale, recently went public.

But many of the concepts in the segment are parts of large conglomerates. Two divisions of the W. R. Grace Corp. have entered the market. One, El Torito-La Fiesta, operates 55 El Torito units among its 83 variously named concepts based in Costa Mesa, Calif. The other, the Kansas City-based Gilbert/Robinson chain of casual-theme dinnerhouses, runs eight Annie's Santa Fe restaurants. Another large corporation, General Mills, includes 12 Casa Gallardo dinnerhouses in its portfolio of restaurants.

Some of the most promising concepts in the market are recent additions to large companies in other segments. Chart House, for example, developed Cisco's Cafe to supplant some of its low-volume high-priced steakhouses. Now, Cisco's has about 20 units, a new freestanding design and its own headquarters in Jefferson, La.

Another small-but-promising concept, three-unit Casa Lupita, was acquired from its Seattle owners during the year by the leader of the budget steakhouse segment, Ponderosa, as an upscale substitute for its weaker units. The Dayton, Ohio-based company is now converting three of its steakhouses into Casa Lupitas; management foresees the conversion of about 50 of its 230-plus steakhouses by the end of 1983 and the development of a freestanding model by the end of this year.

Why all of this frenzied development for a culinary style alien to most of the areas of the country—like the Midwest? Especially in an era of high interest rates, when any new restaurant must consistently show strong profits from the first day it opens?

The answer involves several factors ranging from the quantitative—food costs, table-turn, check average, and so on—to the marketing appeal of a concept considered intriguingly exotic across the heartland.

Food costs at a Mexican dinnerhouse typically run from 28% to 33%—a good 10 points below that of traditional-menu dinnerhouses. This figure owes to the nature of the Mexican menu; it requires lower-priced items such as rice, tortillas, beans, cheese, produce and poultry, and reduces waste to virtually nothing.

This food cost figure allows the operators of Mexican dinnerhouses to give their customers a heaping plate of food for a price—usually an average check per person of $8-$10—far less than he would pay for restaurants of comparable ambience and service. This is especially important in the Midwest, where popular perception holds that the "Good Meal is the Big Meal."

Another number—the minutes the average customer takes to sit, order, eat and leave—attracts operators to the new concept. The ease of preparing the Mexican-style menu, the amount of its items which can be preprepped and its short cooking times reduces this number to around 45 minutes for most operations in the fast-growing segment.

A high percentage of liquor sales is inevitably part of the Mexican-style concept. For marketing reasons probably related to the festive atmosphere fostered by most of the concepts, customers often order high-markup items such as margaritas and imported beers at the restaurants of this segment.

But the operators in the segment have hitched all of these considerations to the cautious marketing of a previously alien product.

Most of them, heeding Midwestern dislike of spicy food, bend over backward to convince their customers that the food is not actually spicy.

This tendency has produced during the last year a great uniformity among the Mexican dinnerhouse chains. Asked how their concepts differ from those of their competitors, most operators claim that *their* operation is "better" than the others. Many even use the same basic floor plan and Mexican-style artifacts on the walls.

Some observers expect the sameness of Mexican dinnerhouse concepts and their concentration in certain, limited markets to produce a high fatigue factor among customers during the next year. Last year's aggressive development of new sites, they feel, could become next year's shakeout.

TACO BELL

# *PepsiCo subsidiary leads Mexican fast-food chains*

IRVINE, Calif.—Taco Bell, the leading Mexican fast-food chain in sales and number of units, is testing nachos, a taco salad and a large taco called a Taco BellGrande and is adding drive-thru windows in many of its older units. Most new Taco Bell restaurants will have drive-thrus.

The chain, part of PepsiCo Food Service, which also operates Pizza Hut, started the year with 820 company-owned and 580 franchised restaurants. About 125 new units are being added to the system this year.

New menu boards, listing several recent additions such as nachos, will be installed in most Taco Bells by the end of the year as part of a systemwide unit upgrading program.

PepsiCo officials also said advertising expenditures will be increased this year, including costs for special promotions following the success of a $4 million Mucho Mucho giveaway game in 1981.

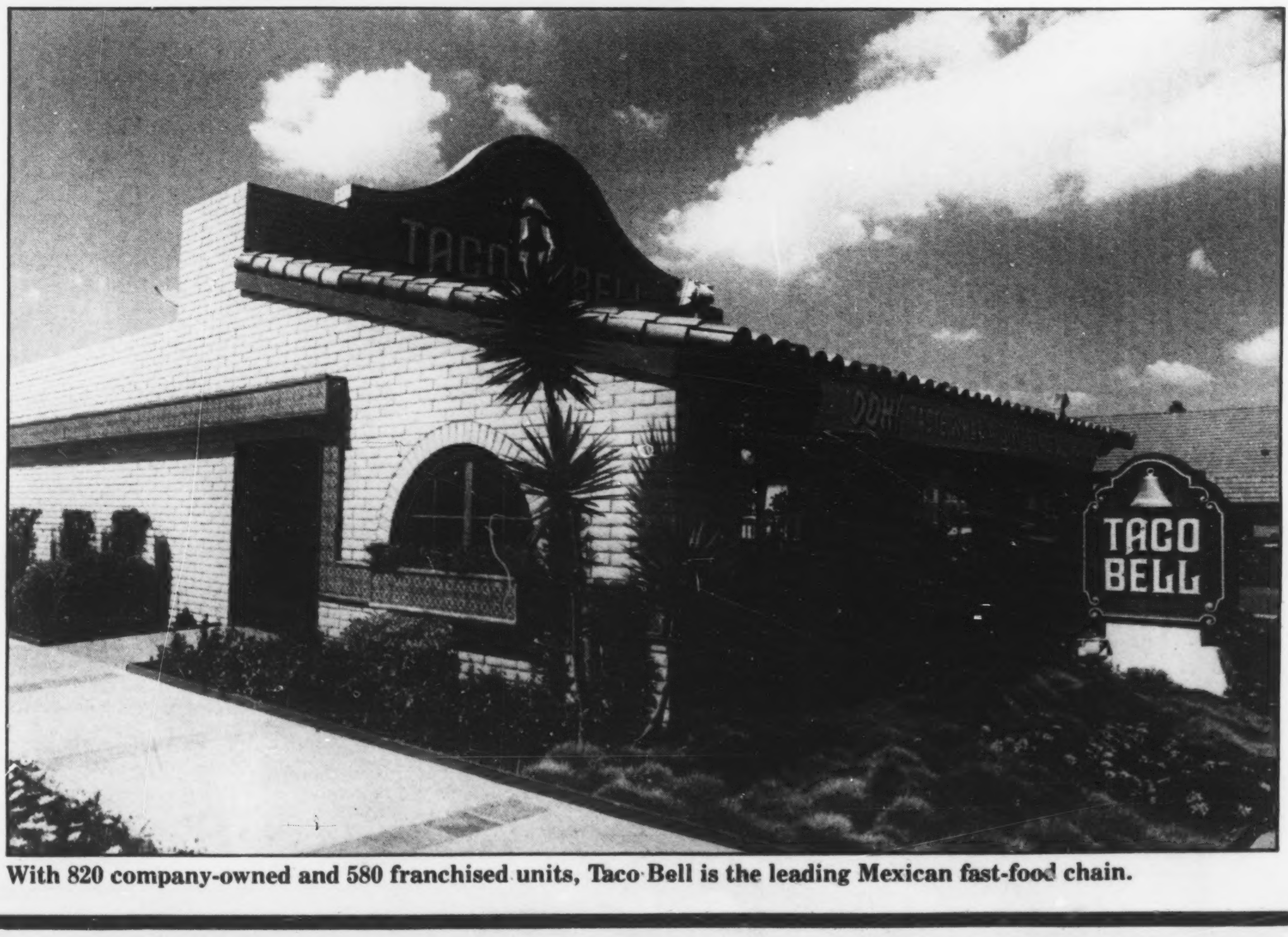
Average unit sales at Taco Bell are in the $400,000 per year range.

PepsiCo Food Service, which operates about 5,800 Pizza Hut and Taco Bell restaurants in the United States and several foreign countries, primarily Australia and Canada, reported an 11% increase in operating profits to $82 million on a 15% rise in revenues to $1 billion in 1981.

Real per-store volume at both chains jumped 7% in 1981, according to a company report.

Unit expansion at Taco Bell this year will include the conversion of 46 Taco Charley restaurants in northern California, Arizona and Nevada to Taco Bell units. PepsiCo earlier this year agreed to acquire the sites.

Calny Food Services, a major Taco Bell franchisee with 46 units, has agreed to purchase the equipment and franchised rights for at least 11 of the acquired sites for $2.1 million. PepsiCo will operate the others.



**With 820 company-owned and 580 franchised units, Taco Bell is the leading Mexican fast-food chain.**

## PIZZA SEGMENT

# Several newcomers propel segment into computer age

**By Charles Forman**

**Traditional pizza segment leaders are sharpening operations, adding sandwiches and small pies to draw lunchers, promoting the popular deep-dish pies and pointing proudly to annual unit volumes creeping along at about a third of a million dollars a year. They are also being pushed aside by a fad born of the computer age.**

**Actually redefining the segment are a host of newcomers led by Pizza Time Theater, Sunnyvale, Calif. Pizza Time hopes to have about 200 units in operation at the end of the year, each averaging almost $1.3 million in annual sales.**

**Close on the heels of this phenom is Brock Hotels Show Biz Pizza, based in Topeka, Kan. Show Biz has 82 units open now, and expects 115-120 by year-end. Show Biz units average about $1 million in sales annually.**

**The drawing card of these building segment leaders are shows performed by animated robot characters and video games. Menus of pizza, sandwiches and drinks come third in importance as customer attractions.**

**Although the animated character concepts still draw the preponderance of dollar sales (about three-quarters) from food, more profit is coming from the video games than from pizza.**

**Also coming on strong in this segment are the small-unit, often no-seating, home delivery and takeout chains like Detroit-area Domino's and Toronto's Pizza.**

**Still, the apparent progress toward health by Pizza Hut under the presidency of Arthur Gunther, should have much impact on the segment during the coming 12 months.**

**Pizza Hut is standardizing menus, working closely with franchisees on advertising, inaugurating a nationwide training program and enjoying rising customer counts and store sales. Average annual unit sales now reportedly top $300,000, an important benchmark for the 4,000 unit chain.**

## GODFATHER'S PIZZA

# *Expansion goals on target as company goes public*

OMAHA—Godfather's Pizza, one of the fastest-growing food-service chains, hopes to open 15 new company-owned stores and 250 franchised stores by the end of the year.

At presstime company expansion plans were on target with about 775 restaurants in operation. Godfather's had 636 franchised and company-owned restaurants at the end of last year.

Godfather's went public this year when company officers offered and sold 1,485,000 shares of common stock. The stock was offered to raise money for company officers, pay taxes and capitalize company stores.

Godfather's is concentrating on expanding into new markets, such as New England and Oregon, and on increasing lunch sales.

Besides its various-sized pizzas, the restaurants offer sandwiches, salads, beer and soft drinks. The highest-priced menu item is the large combo pizza with seven toppings, serving four to six people, and selling for $9.95 at most locations. No slices are sold. Take-out sales amount to about 25% to 40% of total restaurant sales.

Godfather's was founded in 1973 by William M. Thiesen, now company president.

First quarter results show systemwide sales up nearly 40% to $67.3 million, company revenues up 32%, and net income up 46%.

GODFATHERS PIZZA

**The Godfather's Pizza chain went public this year; nearly 1.5 million shares of common stock were sold.**

## PIZZA HUT

# *Management team building solid foundation for growth*

**Pizza Hut officials feel that standardizing company operations is the key to maintaining growth.**

WICHITA, Kan.—Pizza Hut officials say the chain is testing at least 10 sandwiches besides a smaller pan pizza, in hopes of building lunchtime sales.

But, probably more important to keeping the 4,000-unit segment giant on a growth track, are less glamorous moves to strengthen operations and marketing and build a basically standard menu that both company-owned and franchised stores can adhere to.

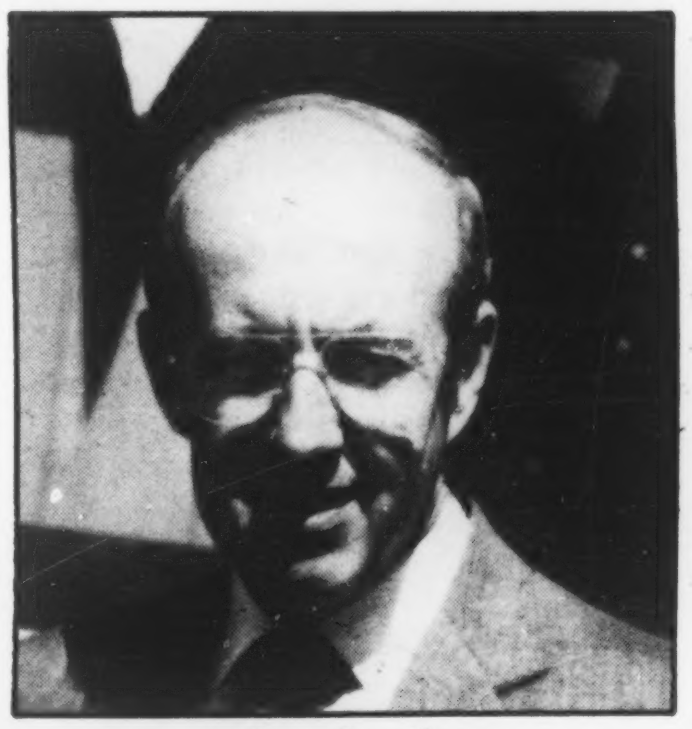
For one thing, the company hopes to open 10 regional management training centers by the end of this year and a total of 13 eventually—corresponding with the company's 13 regional offices. Company store managers will spend two weeks in their stores and then nine days in a training center before going back to their jobs. Other new management people will have to undergo training at one of the new centers within their first six months with Pizza Hut.

The company has also created 10 regional field supervisor posts to keep a tighter rein on operations and ensure the consistency that the system needs to continue to build unit sales.

Pizza Huts average annual unit sales now top $300,000 and customer counts have risen better than 8% over the last 12 months.

The company is also planning a regional approach to merchandising certain menu items: Cold tomatoes will be used as toppings in Seattle and Crayfish in New Orleans. In certain markets a taco pizza is getting a tryout.

Company officials also say they plan expansion on both the East and West Coasts, areas where they have had less of a presence than in the Midwest. Although expansion has been stalled for the past two years, the company says it plans 150 new restaurants a year for each of the next five years.



**Arthur Gunther**
*Pizza Hut president*

Unit remodeling and upgrading is also on tap. Parent PepsiCo has committed $100 million to the program.

A possible key to the future for the chain are new conveyorized ovens that can cook pizza in eight minutes instead of 15. These could not only help build overall volume, but could do even more than new products to add to lunch business.

New executives added to the top command by president Arthur Gunther include Frank Reynolds as chief financial officer. He held the same post at Burger King International. Another Gunther addition is Doug Willsie as restaurant development vice president.

# NRN FOCUS

## PIZZA SEGMENT

### PIZZA INN INC.

Fiscal Year Ended Dec. 31

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| Systemwide Sales (Millions) | $189.9 | $201.5 | $223.3 | $240 |
| Revenues (Where Different From Sales) (Millions) | $113.6 | $125.1 | $138.8 | $150 |
| Net Profit (Millions) | $1.399 | $1.702 | $1.719 | |
| Average Store Sales | $260,700 | $275,400 | $322,100 | $345,000 |
| Number of Units | 747 | 747 | 731 | 775 |

Source: NRN research

*Projected

**Pizza Inn Inc. reported net income of $442,000 on revenue of $34.2 million for the first quarter of fiscal 1982 ended March 28.**

**The company increased menu prices an average 9.2% during 1981.**

PIZZA INN INC.

## *Lag in sandwich rollouts slows push for lunch sales*

**F.J. Spellman**
*Pizza Inn ceo*

DALLAS—Pizza Inn has its hot and cold sandwiches in about half its markets now and hopes to have the products account for about 10% of total sales by the end of next year.

A strategic reason for the emphasis on sandwiches was to build lunchtime sales. But in actuality, the rollout may be falling behind expectations.

Earlier statements by company spokesmen had indicated the rollout would be completed months ago. In addition, early tracking of sandwich sales in test stores shows them garnering just 4% of store sales, according to Michael Feldmann, director of marketing services.

This percentage has, however, been steadily rising.

The chain has also been experimenting with a deep-dish pan pizza, primarily in the Dallas-Houston-Atlanta market. Feldmann says it's still early to judge the results.

To increase customer awareness of its new products, Pizza Inn is "reallocating dollars to more electronic media [radio and television] and less to print," says the marketing director. Most of the restaurants are concentrated in the Sunbelt. Ads will be spots on local TV and radio stations.

Feldmann says the company "recently started an aggressive campaign to add franchises." Pizza Inn has 735 units, 400 of which are franchised. However, growth in number of units has stalled in recent years. In 1979 there were 747 units; in 1980, 740 units, and at the end of last year, after the company sold some unprofitable stores, there were 735 units.

The major thrust for new stores will continue to be the Sunbelt, says Feldmann. He adds that there will be some expansion in the overseas markets.

After a drop in profits last year (net income was down to $1,399,000 from $1,702,000 in 1980), there are hopeful signs this fiscal year. Net income for the first quarter, ended March 28, was up 47.8% to $442,000 from $299,000 the previous year. The company said it had a 14% increase in restaurant volume during the quarter.

PIZZA TIME THEATER INC.

**Chuck E. Cheese is the star of Pizza Time Theater's corral of entertaining robot characters.**

## *Four-year-old chain pioneers video games in restaurants*

SUNNYVALE, Calif.—Pizza Time Theater Inc. is redefining the pizza segment as it races this year for 200 units, more than twice the number the company had at the end of 1981.

The fledgling four-year-old company, founded by Nolan Bushnell, also the founder of video game pioneer Atari, is building units at the rate of almost two per week.

The concept pulls 75% of its sales from pizza, a few sandwiches and drinks. But most of its profits, and 25% of its sales, come from video games.

In addition, robot characters, featuring top-billed Chuck E. Cheese, perform two-to-three-minute skits every eight minutes as entertainment.

### PIZZA TIME THEATER

Fiscal Year Ended Dec. 27

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| Systemwide Sales (Millions) | $4.0 | $15.0 | $55.0 | $145.0 |
| Revenues (Where Different From Sales) (Millions) | $3.1 | $11.4 | $36.2 | |
| Net Profit (Millions) | −$1.3 | $0.2 | $2.6 | |
| Average Store Sales (Millions) | $0.9 | $1.0 | $1.2 | $1.3 |
| Number of Units | 7 | 25 | 88 | 207 |

Source: NRN research

*Projected

The formula pulls in about $1.2 million per unit per year on a family-check average of $14.

A lawsuit involving one-time franchisee Show Biz Pizza of Topeka, Kan., may add up to $50 million to Pizza Time's coffers as a raft of imitators jump on the pizza-and-games bandwagon.

Recent developments at Pizza Time include the sale of franchise rights for Hong Kong, Westchester County (a New York City suburb) and the state of Washington. Officials are known to be negotiating aggressively for European rights.

At the end of fiscal 1981, Dec. 27, when the chain numbered 88 units, the company said it had signed franchise deals for 79 new franchised units this year, and 50 more in 1983.

For the first quarter, a 12-week period ended March 21, the company reported profits of $1.7 million, a phenomenal 1,226% increase. Revenues gained 221% to $17.2 million.

At the end of June, the chain numbered 130 units, 71 of them company-owned.

DOMINO'S PIZZA

## *Rapid chain growth results in menu price reductions*

ANN ARBOR, Mich.—Domino's Pizza reports that rapid growth last year helped reduce menu prices 7.5% below 1981 levels.

Spokesman Robert Salogar says Domino's has been able to negotiate higher-volume contracts with suppliers, resulting in savings that have been passed on to consumers in price decreases ranging from 5% to 10%.

The company operated 687 units at presstime, compared to 582 at the end of last year. Salogar says the company's goal is to "have a store in every town of 10,000 or more by 1984."

### Looking Abroad

Another push is into international markets, he says. Domino's has a list of about 20 possible foreign countries for expansion, such as Brazil, South Africa and Britain, and has begun training people to handle the franchises.

Domino's basic products are 12-in. and 16-in. pizzas with various toppings. Service is 100% takeout; therefore, a product like deep-dish pizza would "disrupt our service concept," according to Salogar, because it would take too long to cook properly. Domino's says it serves customers in 30 minutes from the time the phone order is completed to time of delivery.

Salogar says Domino's is projecting a 55% to 60% increase in systemwide sales this year over last year's total of $179 million.

Last year Domino's stopped selling franchises to people outside the company. At present, Salogar says, 92% of franchised stores are owned by former Domino's employees. "We groom our own franchisees," he says. "It's like a farm system."

The overseas markets will be an exception.

## CAFETERIA SEGMENT

# All eyes on Furr's attempt to build 25 new cafeterias

**By Rurick Telberg**

**The leading cafeteria companies this year will be watching intently as Furr's attempts to bring 25 new units on line.**

**Furr's ambitious plans have met with skepticism. Competitors say parent K mart may be able to build the units, but say they doubt Furr's can staff them with qualified managers which take an average of five years to train.**

**Yet, if Furr's succeeds, it could change the relatively easygoing ways of its competitors who would be forced to catch up.**

**Three of Furr's peers—Luby's, Piccadilly and Wyatt—are investing in real estate which provides them a convenient place to stash cash from their high-margin businesses and sets the stage for orderly growth.**

**Luby's in particular will have the wherewithal from a recent stock offering to take advantage of any of Furr's missteps or to challenge Furr's in unit-growth next year.**

**Morrison Inc., on the other hand, is funneling its cafeteria earnings into diversifying acquisitions. The 17-unit casual themer Ruby Tuesday chain and two franchised Western Steer budget steakhouses were recently added to Morrison's stable of food-service businesses.**

**In addition, Morrison will apparently continue to broaden its food-service management business.**

**Morrison remains the leader in the cafeteria segment in terms of number of units, but it is still working on tightening cafeteria operations.**

FURR'S CAFETERIAS

# K mart subsidiary tackles ambitious expansion plan

LUBBOCK, Tex.—This could be a make-or-break year for Furr's Cafeterias as the K mart subsidiary pushes to build 25 new units in one of the most ambitious expansion projects ever witnessed in the cafeteria segment.

Furr's competitors have been openly skeptical that the 25 new units can be integrated into the system. They note it takes them at least five years to train cafeteria managers.

### Staff Realigned

But as Furr's began the expansion surge, the staff was realigned to grant more authority to those in the field.

Four regional vice presidents were promoted from the ranks of 11 district managers. A 12th district was added. And the district managers, instead of having to go through Harold Andrews, president and chief operating officer in Lubbock, for decisions, could go to their new regional vice president.

K mart acquired Furr's for $66.1 million in April 1980 when the chain numbered about 75 units and scored annual sales of $99 million. But gearing up for this year's expansion apparently took longer than K mart planned.

The first year was spent lining up sites, a first step other cafeteria chains are only now beginning.

### Projection

K mart had projected 14 to 16 new units to be built last year but when the tally was in, only eight had actually opened.

Then Don Fritz, a former K mart food operations director, was named senior executive officer and vice chairman. Both were new positions which made him the second-in-command reporting to Don Furr, chairman and chief executive.

Now it appears the management changes and site inventorying are paying off with a spurt of growth. But whether Furr's can pull it off is the subject of much skepticism and not a little trepidation among its competitors.

***FURR'S CAFETERIAS***

**Fiscal Year Ended Jan. 28**

| | 1980 | 1981 | 1982 | Current Fiscal Year* |
|---|---|---|---|---|
| **Systemwide Sales (Millions)** | $98.9 | $111.6 | $120.4 | $144.5 |
| **Average Store Sales (Millions)** | $1.2 | $1.3 | $1.4 | $1.5 |
| **Number of Units†** | 79 | 79 | 86 | 111 |

Source: NRN research

*Projected

†Includes two pie shops.

MORRISON INC.

# Emphasis on diversification, tightening unit management

MOBILE, Ala.—After a couple of rocky years while slimming down, Morrison Inc. has come out swinging with forays into the casual-theme and budget steakhouse markets.

In addition, tighter management is boosting profit margins in its bread-and-butter lines of cafeterias, contract feeding and suppliers.

If Morrison's unconsolidated insurance subsidiary fails to perk up, some industry observers expect it to go the way of Admiral Benbow Inns: Sold. And the cash could be used for more buy-outs.

"We will probably wind up with four to five different concepts over the next five-year period," E. Eugene Bishop, president and chief executive, said.

Morrison plans to build 10 to 12 new cafeterias this year, while buffets take a back seat during a painful re-evaluation. At the end of the third quarter, Feb. 27, 1982, the firm had 143 cafeterias and 10 buffets.

Over the next five years, Morrison plans to add 28 Ruby Tuesdays to the 16 it bought in April. The Knoxville-based chain complements, with younger and more affluent demographics, Morrison's traditional older cafeteria customers.

Also in April, Morrison became the franchisee of two Western Steer steakhouses in Alabama.

Morrison continues to slim down. During the first nine months of fiscal 1982, two cafeterias and a family buffet were shuttered.

Profits for the three quarters ended Feb. 27, 1982, gained 15% to $10.8 million on a 12% revenue gain to $264.6 million.

*'We will probably wind up with four to five different concepts over the next five years.'*

**—E. Eugene Bishop,**
**president, ceo,**
**Morrison Inc.**

***MORRISON INC.***

**Fiscal Year Ended May 29**

| | 1980 | 1981 | 1982 | Current Fiscal Year* |
|---|---|---|---|---|
| **Revenues (Millions)** | $278.2 | $320.7 | $352.0 | $380.0 |
| **Net Profit (Millions)** | $14.0 | $12.9 | $15.0 | |
| **Cafeterias Systemwide Sales (Millions)** | $194.5 | $223.5 | $235.0 | $245.0 |
| **Operating Profit (Millions)** | $19.8 | $20.4 | $21.6 | |
| **Average Unit Sales (Millions)** | $1.4 | $1.5 | $1.6 | $1.6 |
| **Average Check Per Person** | $3.11 | $3.38 | $3.64 | $3.75 |
| **Institutional Feeding + Revenues (Millions)** | $63.5 | $72.3 | $90.4 | $100.0 |
| **Operating Profit (Millions)** | $3.3 | $4.8 | $6 | |
| **Number of Units Cafeterias** | 137 | 141 | 147 | 158 |
| **Buffets** | 10 | 11 | 10 | 10 |
| **Ruby Tuesday** | | | 17 | 22 |
| **Western Steer** | | | 2 | 2 |
| **Food Service Management Accounts** | 262 | 267 | 301 | |
| **Admiral Benbow Motels** | 15 | 14 | | |

Source: NRN research

*Projected

+ Includes food, supply and equipment sales to institutional feeding accounts

**For the nine months ended Feb. 27, 1982, Morrison reported net profit of $10.8 million on revenues of $264.6 million.**

**Menu prices were increased about 8.5% during fiscal 1982.**

# NRN FOCUS

## CAFETERIA SEGMENT

### PICCADILLY CAFETERIAS

Fiscal Year Ended June 30

| | 1980 | 1981 | 1982 | Current Fiscal Year* |
|---|---|---|---|---|
| Systemwide Sales (Millions) | $115.4 | $127.2 | $142.3 | |
| Net Profit (Millions) | $6.4 | $7.8 | $8.4 | |
| Average Store Sales | $1.5 | $1.7 | $1.8 | |
| Average Check Per Person | $2.98 | $3.27 | $3.35 | |
| Number of Units | 78 | 79 | 81 | 85-89 |

Source: NRN research

*Projected

**In the nine months ended March 31, Piccadilly reported net profit of $7 million on sales of $105.6 million.**

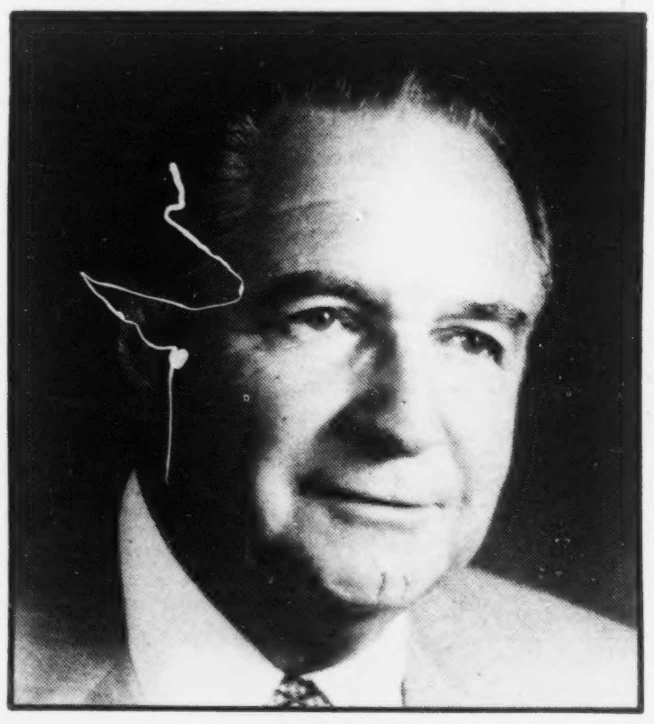
**The company raised prices 7.3% in fiscal 1982, according to their projection.**

LUBY'S CAFETERIAS

## Expects 20% profit gains over the next two years

SAN ANTONIO—Luby's Cafeterias executives have scheduled six new units for fiscal 1983, adding to the 64 they expect to have at the close of fiscal 1982 at the end of this month.

The new units are being financed internally, but that could change in fiscal 1984 when the company expects to use the $13.4 million netted in a recent stock sale to continue its annual 10% unit growth rate.



**George H. Wenglein**
*Luby's chairman, ceo*

It currently costs Luby's $2 million to $2.4 million to build a new cafeteria, with $300,000 to $500,000 of that for land.

The units ring up some of the highest annual volume and per-tray check averages in the segment—$2.3 million in annual volume and about $3.70 per tray projected.

With solid customer counts and new unit openings, Luby's executives expect 20% yearly profit gains for the next two years.

For the nine months ended May 31, Luby's reported net profit of $8.2 million, a 17% increase over the year-ago period, and revenue of $92.2 million, an 18% gain.

George Wenglein became chairman and chief executive after co-founder Robert Luby retired in January.

### LUBY'S CAFETERIAS

Fiscal Year Ended Aug. 31

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| Systemwide Sales** (Millions) | $85.1 | $99.2 | $118.8 | $140.0 |
| Revenues (Where Different From Sales) (Millions) | $77.9 | $91.4 | $110.2 | $125.0 |
| Net Profit (Millions) | $6.5 | $8.0 | $9.8 | $11.2 |
| Average Store Sales† (Millions) | $1.79 | $1.93 | $2.16 | $2.3 |
| Average Check Per Person | $2.91 | $3.18 | $3.44 | $3.7 |
| Number Of Units** | 51 | 56 | 59 | 64 |

Source: NRN research

*Projected

**Includes seven managed cafeterias owned by Luby's executives

†Owned cafeterias only

**Luby's raised prices about 7% in the past 12 months.**

**Luby's reported net profit of $8.2 million on revenue of $92.2 million for the nine months ended May 31, 1981.**

PICCADILLY CAFETERIAS

## Company officials charting conservative growth pattern

BATON ROUGE, La.—Basking in healthy customer counts, Piccadilly Cafeterias plans five to eight new units this year but is hedging its bets on the economy.

"Our present strategy is to pursue sites for freestanding units and inventory them so we can grow in an orderly manner," said James Bennett, executive vice president and treasurer.

### Real Estate

As Bennett noted that real estate makes a liquid inflation hedge, O. Q. Quick, chairman, president and chief executive, quipped: "And it's a hell of a lot easier than running cafeterias."

Quick sees no decline in interest rates for more than a year, so he is charting a course that leaves the 81-cafeteria company room to maneuver.

The company had $11.2 million in working capital at the end of the third quarter, March 31, which is a 65% increase over the prior-year period.

And with a bank of land, Piccadilly can build or sell, showing a gain on its books either way.

Acknowledging that only four more cafeterias are open since mid-1980, Quick explained, "We weren't holding back due to a lack of capital, but we were setting up our manager training program and working on existing units, tightening down operations."

"We plan to get back to the 10% expansion rate in numbers of new units," he said.

Eight new cafeterias are planned for this year, but noting the problems Piccadilly has encountered with local planning agencies, lease negotiations and a decimated shopping center building industry, Quick considered five new units "more realistic."

DAIRY QUEEN

## Soft-serve giant to roll out hard ice cream in all units

BLOOMINGTON, Minn.—Latest results from the 11-unit Macon, Ga., test market indicate that soft-serve giant Dairy Queen may go ahead with systemwide adoption of hard ice cream by the middle of next year.

Sales volumes for the units in the test—which represent the great variety of types of Dairy Queen stores in the 4,800-plus unit system—have increased 14% over the first part of 1982, according to development vice president Mike Leary. Almost the entire increase, he said, is attributable to hard ice cream.

"Our goal for this product," he said, "was to get new customers into the stores and get the product into their mouths. Once we do that, we know we've got them for good because of the quality of the product."

He explained that there is surprisingly little "cannibalization" of market share—competition between the traditional soft serve product and the new hard offering—because Dairy Queen's soft serve inhabits a market niche all of its own by now.

Thus, he added, the new product can only add to sales. In the pilot test market, three units in Idaho, the "crossover" factor accounted for less than 5% of total sales.

Franchisees of the system are requesting the new product line avidly, Leary said. But they'll have to wait: the final results of the test will not be in until February.

Even then, president and chief executive officer Harris Cooper pointed out, implementation of the new program could involve years. The products' high quality, he said, makes it especially important to secure local suppliers who are able to meet the company's standards.

"With a product like this," Cooper said, "you don't want to take any chances. Easy does it."

The last year also marked Dairy Queen's expansion outside its native market segment. With the acquisition of the 220-unit Golden Skillet fried chicken chain, the company gains a foothold in a segment of the food-service industry slated for rapid expansion in the next few years.

Dairy Queen's expertise in franchising, Cooper said, will revive the operation. Golden Skillet has been plagued by years of low volumes, inconsistencies in concept and, some said, indifferent management.

Dairy Queen's performance during fiscal 1981 was, according to Cooper "right on target." Sales increased more than 10% to $1.125 million, while net profit gained just under 18% to $5.57 for the year, a noticeable improvement over the previous year's modest showing.

Steady assimilation of the 950-plus Texas Dairy Queens acquired in 1980 also affected the 1981 bottom line. Revenue jumped more than 17% to $92.6 million, while the number of units in the system dropped slightly to 4,805—the legacy of many years of lax standards under the previous management ownership of the Texas units.

Cooper, averring satisfaction with these figures, conceded the negative effect of high interest rates upon the small investors who have powered Dairy Queen's expansion in the past. He said that the company set "realistic" goals for the current fiscal year, considering mass layoffs in the industrial regions, a harsh winter in the Midwest and a deep recession all over.

# NRN FOCUS

## *FAMILY RESTAURANT SEGMENT*

### Chains battle fast feeders for breakfast market share

**By Joe Edwards**

**Family restaurants/coffee shops are spending most of their time, money and effort on image enhancement, new product development and food promotions emphasizing price, value and quality.**

**Full-tilt unit expansion is not evident in this segment and unit growth even among leaders such as Denny's and the various Big Boy chains is limited. Denny's has acquired a number of small chains, including VIP's and Alphy's, and is converting these units to its own coffee shop concept.**

**The segment is also battling fast feeders for a share of the breakfast market. Traditionally the domain of family restaurants, breakfast now is available at many fast feeders such as Hardee's and McDonald's; other fast feeders are scrambling to develop breakfast menus of their own.**

**As a segment, family restaurants and coffee shops are weathering the recession better than most by attracting customers trading down from higher-priced full-service restaurants and by offering greater perceived value than fast feeders—points driven home in many of the top chains' advertisements.**

**Denny's, the 21 Big Boy groups, Friendly, Perkins, Jojos, Coco's, Bob Evans Farms, Lyons, Country Kitchens, Howard Johnson, Marie Callender and a host of other chains are benefiting by offering true dining experiences and menu variety at relatively low prices.**

**This puts them at a distinct advantage over fast feeders whose menu prices have risen sharply in recent years and whose service has slowed considerably because of menu expansion.**

**Individual chains in the segment have their challenge. Sambo's remains a serious problem, but some executives at competing chains actually are rooting for a recovery at the beleaguered food-service giant to help the whole segment's image. Having filed for bankruptcy court protection last December following heavy losses in 1981, Sambo's is still losing millions but a new management team is trying to get the chain back on course.**

**Under the direction of new chairman Robert Luckey, formerly ceo of Chart House Inc., Sambo's is experimenting with an upscale family restaurant called Pleasers in Santa Barbara, Calif., while continuing with several No Place Like Sam's units in the East.**

**International House of Pancakes, performing marginally at best, is being sold by its ailing parent Wienerwald. Many are wondering what the Imperial Group Ltd. of Britain plans to do with its 820-unit Howard Johnson chain, which it acquired nearly three years ago. Some view Howard Johnson as a sleeping giant; others see it as a chain whose time has passed.**

**Elsewhere in the segment, some chains are upgrading their units, testing contemporary menu items and promoting value.**

**Friendly, Perkins and Denny's, to name just three, have been spending millions in the last two years sprucing up older units. Friendly, once known mostly for its ice cream, is repositioned as a family restaurant chain with a diversified menu.**

**Denny's has new menu items and day-of-the-week specials and has been making an extra effort to attract senior citizens with discounted meals for older customers. Perkins, which has reversed its falling customer traffic trends, has a new line of sandwich platters called Grandwiches. Jojos is testing new salad entrees and desserts and Bob's Big Boy is upgrading some of its salad bars.**

DENNY'S

## *Billion dollar mark reached; site acquisition increases*

LA MIRADA, Calif.—Denny's Inc., with a raft of new restaurant conversions opening under the Denny's logo, is pursuing an active site acquisition program. While looking to pick up more facilities from competitors, president and ceo Vern Curtis estimates that his company broke the billion-dollar mark in revenues for fiscal 1982 ended June 26.

Along with 16 converted Sambo's units, Denny's has finished the makeover of 26 of the 35 VIP's restaurants acquired earlier this year. By September the company plans to have completed conversion of 23 of the 40 Alphy's restaurants it picked up in May; the other 17 Alphy's will be sold off.

"Purchase and conversion is an attractive method of expanding our business," Curtis said. Of the 75-odd new Denny's planned for 1983 about a third will be converted acquisitions.

Curtis figures that fiscal 1982 will show about $950 million in internal revenues from company-owned stores, and an additional $110 million in sales by licensees—for systemwide sales topping $1 billion.

Denny's now has 1,923 outlets in operation, including 34 domestic franchises, 180 foreign licensees or joint ventures (primarily in Japan), and 851 Winchell's Donut Houses. Two Hong Kong restaurants and one in Guam opened this year.

The company recorded net income of $26.4 million on revenue of $703.4 million for the nine months ended March 26—a 42% increase in income over the same period last year. About an even mix of increased customer traffic and menu price increases account for the earnings boost.

To maintain its strength in the coffee shop segment (estimated at a one-third share of the market served by the five leading chains), Denny's is counting on its marketing and menu development expertise, and a gradual change to a more sophisticated image.

New items evolving out of tests (bumping other dishes off the fixed, 125-item menu) are stir-fry beef and vegetables, grilled ocean perch and pita bread sandwiches stuffed with a choice of tuna, chicken or shrimp salad. Denny's intensive testing efforts payed off with 20% of all restaurant sales derived from items added to the menu

In keeping with the company's effort to broaden its appeal beyond a stereotypical coffee shop image, Denny's is rolling out a "Series 81" restaurant design for all new-unit construction. The design is also scheduled for incorporation into renovations of existing Denny's.

The new look uses muted earth tones, especially greens, and natural wood finishes. Skylights, geometric tile patterns and textured carpeting lend a measure of sophistication not seen in the Denny's of old.

Closure of more than 100 of the company's doughnut shops in the past year has weeded out some of the marginal operations in the Winchell's chain. Although doughnut segment revenues for the first nine months of 1982 were only slightly ahead of last year, profits from the division rose by 30% for the same period.

Expansion of restaurant operations, curtailed by management in 1980, appears to be back on track, augmented by the cost-saving acquisition/conversion tactic and the company's ever-growing marketing muscle.

***DENNY'S***

**Fiscal Year Ended June 26**

| | 1980 | 1981 | 1982* | 1983** |
|---|---|---|---|---|
| **Systemwide Sales (Millions)** | $717 | $849 | $1,060 | $1,270 |
| **Net Profit (Millions)** | $17 | $27 | $33 | |
| **Average Store Sales** | | | | |
| **Denny's** | $753,000 | $831,000 | $850,000 | $870,000 |
| **Winchell's** | $150,000 | $168,000 | $175,000 | $180,000 |
| **Number of Units** | 1,908 | 1,879 | 1,923 | 1,998 |

Source: NRN research

*Estimated

**Projected

SHONEY'S

## *Famous Recipe set for national expansion*

NASHVILLE—Shoney's is expected to start expanding the 222-unit Famous Recipe chicken restaurant chain that it acquired last November.

Under an agreement with Heublein, the franchisor of a group of Kentucky Fried Chicken restaurants Shoney's operated and sold subsequent to its Famous Recipe acquisition, Shoney's said it would not expand Famous Recipe for a period of 12 months following the purchase.

But the Nashville-based company indicated that once the year is up, it plans to begin building Famous Recipe, now in 22 states, into a national chain.

Famous Recipe's systemwide sales were $72 million at the time it was purchased. The chain was nearly all franchised.

Meanwhile, Shoney's continues building up its other restaurant concepts. By the end of the current fiscal year, it should have about 360 Big Boy coffee shops in operation, up from last year's 335.

Because Shoney's has territorial rights for Big Boys to only 11 states, it has developed a similar concept, Danner's Towne & Country, for expansion elsewhere. By year's end, about seven Towne & Country's should be in operation.

Captain D's, a chain of some 380 fast-seafood restaurants, is expected to increase by about 40 units in the coming year. Though average Big Boy unit sales are double those of Captain D's, the seafood concept has grown at a faster pace, in part

*(Continued from page 113)*

tain
D's
food
&
urgers

**Forty new Captain D's units are expected for '83.**

NRN FOCUS

## FAMILY RESTAURANT SEGMENT

HOWARD JOHNSON'S

**Howard Johnson chairman and president Mike Hostage (inset) sees a need to "harmonize" the restaurant, motor lodge and manufacturing groups.**

HOWARD JOHNSON

### New upscale restaurant concept undergoing tests

BRAINTREE, Mass.—Howard Johnson's will be evaluating a new upscale restaurant concept it has built adjacent to two of its motor lodges.

Called Chatt's, the restaurants are located in Chattanooga, Tenn., and Plainview, N.Y.

The two restaurants are the first HoJo's operations in which one general manager assumes responsibility for both the hotel and the dining facility. The "general manager" concept of organization is likely to be expanded to other HoJo's properties, according to remarks by Mike Hostage, who was named chairman and president of the company at the beginning of the year. HoJo's is a subsidiary of Britain-based Imperial Group Ltd., an $8 billion conglomerate.

HoJo's operates over 800 Howard Johnson's restaurants, more than 520 motor lodges, 200 Ground Round restaurants and about 20 Red Coach Grills, as well as its own commissary.

Hostage, who has characterized the company as "profitable"—though not "adequately" so—has said his first priority would be to "harmonize" the restaurant, motor lodge and manufacturing groups.

SHONEY'S

### Captain D's may see fast growth

*(Continued from page 104)*

because its lower construction costs offer a more attractive return on investment. What's more, because Captain D's is a proprietary concept, there are no licensing restrictions to its growth.

Much of the growth is likely to be financed from internal funds. In fiscal 1981, cash flow from operations accounts for 89% of capital expenditures. Earlier this year, stockholders also voted to increase the authorized number of shares from 15 million to 30 million, thus creating another likely source for expansion capital.

***SHONEY'S***

**Fiscal Year Ended Oct. 25**

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| **Systemwide Sales (Millions)** | $375 | $417 | $510 | $700 |
| **Revenues (Where Different From Sales) (Millions)** | $189 | $216 | $269 | $310 |
| **Net Profit (Millions)** | $10 | $12 | $15 | $19 |
| **Average Store Sales** | | | | |
| **Big Boys'** | $825,000 | $847,000 | $950,000 | $1.1 million |
| **Captain D's** | $476,000 | $477,000 | $507,000 | $530,000 |
| **Number of Units** | 622 | 683 | 728 | 950 |

Source: NRN research

*Projected

**For the first half ended May 9, Shoney's reported net income of $9.3 million on revenues of $161 million.**

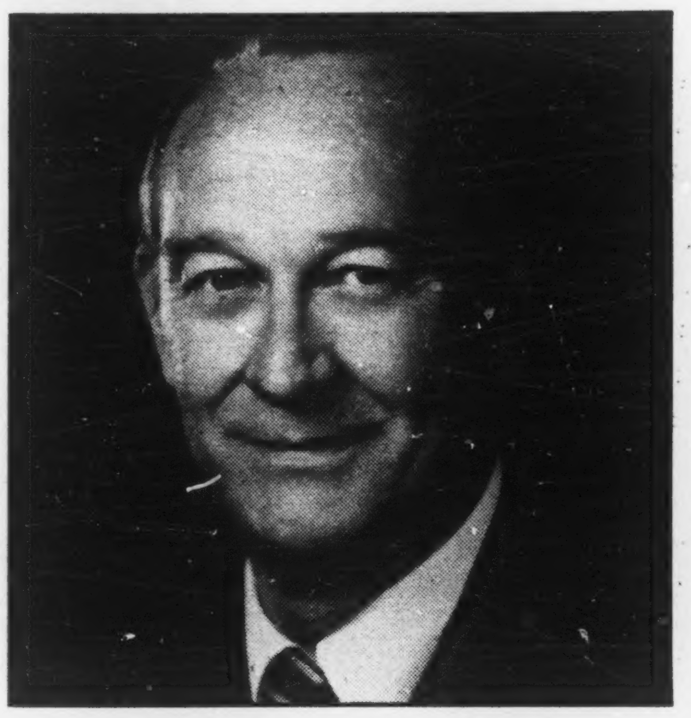
FRIENDLY

### Chain introduces 1st ice cream-only menu

WILBRAHAM, Mass.—Friendly is staging a series of ice cream promos themed the "Super Summer Sundae Saleabration."

Coupled with the promotions—in one of its phases, Friendly has been offering ½-priced sundaes with the purchase of a meal—has been the introduction of the chain's first ice cream-only printed menu.

Meanwhile, the 630-unit chain, a Hershey Foods subsidiary, is nearing completion of a unit modification program it began several years ago. The program has repositioned the chain as a full-fledged family restaurant concept by bringing a new casual design and greater menu selection to its traditional ice cream and sandwich shops.



**James D. Staggs**
*Chief executive officer*

The program will be completed by the end of the year.

While about 550 of Friendly's units will sport the modified look, the rest are mostly larger "Family Dining Restaurants" whose sales are up to double those of modified units, which average between $400,000 and $450,000. Much of Friendly's future growth will come from the construction of the larger family restaurants.

A new, more efficient building design was recently introduced for that concept. While the building's overall size has been reduced by 20%, seating has been cut by only two seats. The more efficient model should provide the chain, which operates in the Northeast and Midwest, a better return on investment.

Earlier this year, James Staggs, a veteran Friendly officer, moved up to chairman in addition to his duties as chief executive officer.

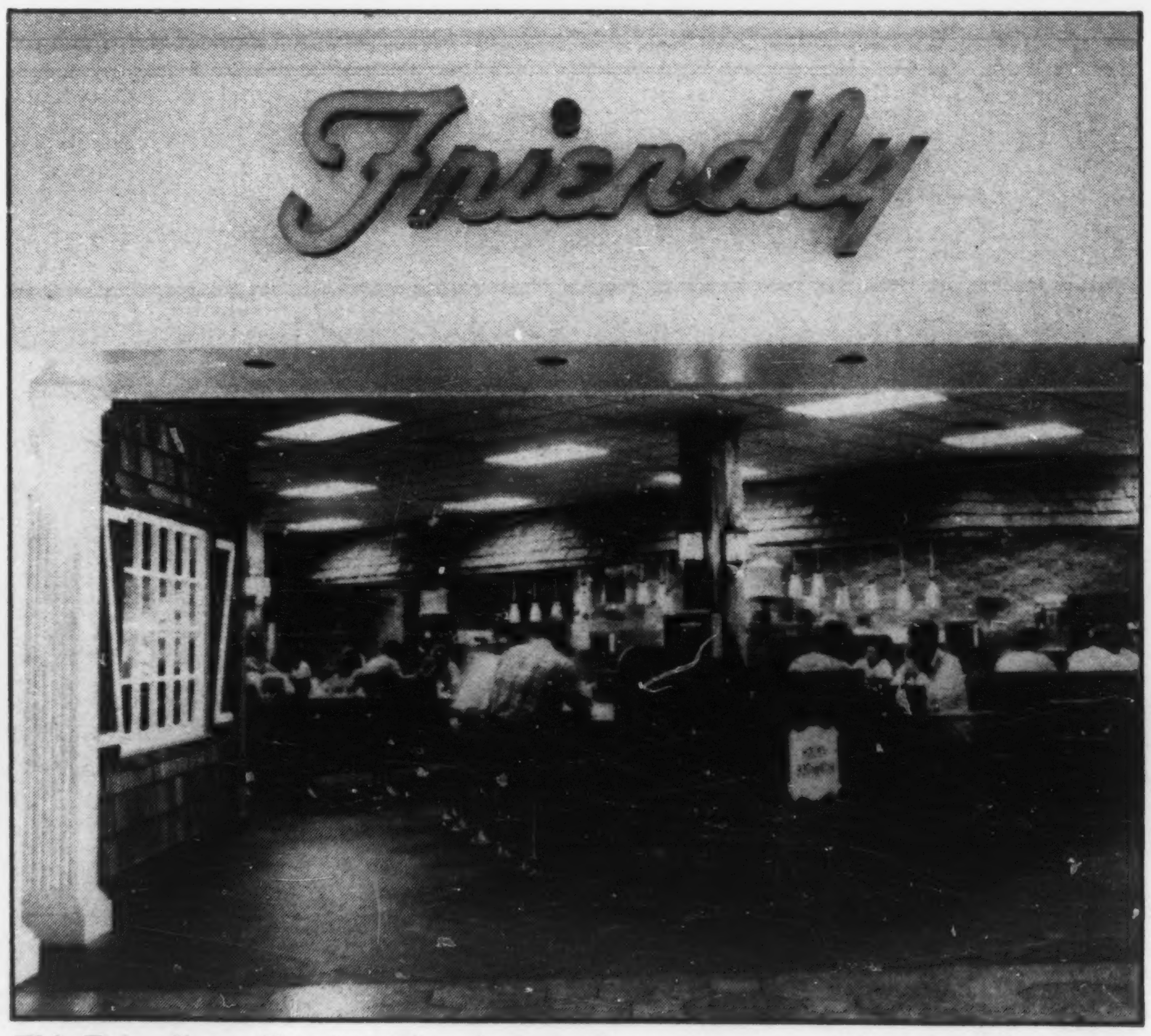
***FRIENDLY***

**Fiscal Year Ended Dec. 31**

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| **Systemwide Sales (Millions)** | $224.1 | $274.3 | $302.9 | $320.0 |
| **Operating Profit (Millions)** | $23.3 | $25.6 | $29.3 | $33.0 |
| **Number Of Units** | 615 | 630 | 626 | 635 |

Source: NRN research

*Projected



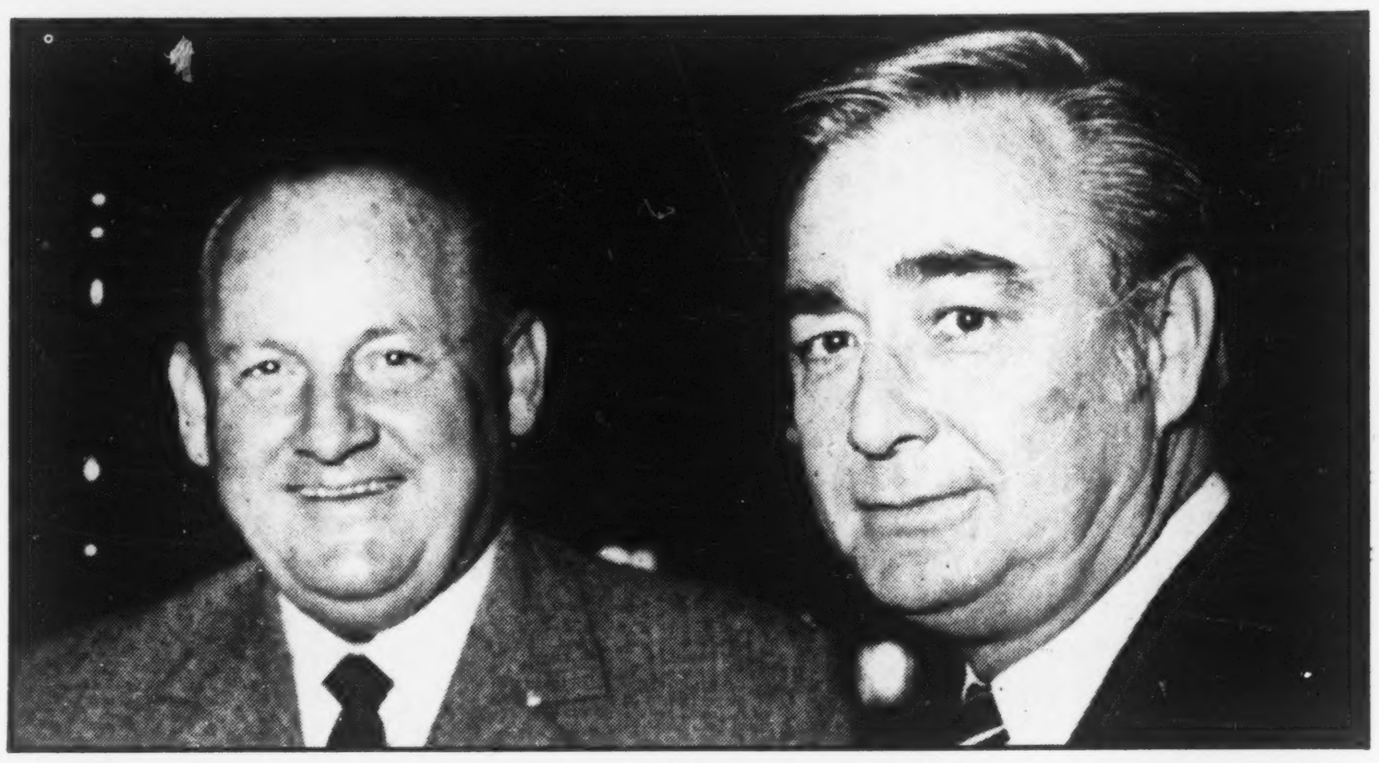
*This Friendly mall unit in Farmington, Conn., sports a variation on the chain's new casual look.*

NRN FOCUS

## FAMILY RESTAURANT SEGMENT

### INTERNATIONAL HOUSE OF PANCAKES

# Marginally profitable, and now up for sale



**Wienerwald founder and current IHOP owner Friedrich Jahn (left) with IHOP president Richard Herzer.**

NORTH HOLLYWOOD, Calif.—IHOP Corp. was being offered for sale at presstime by its parent company, Swiss-based Wienerwald. Strapped for cash and pressured by creditors at home, Wienerwald reportedly was also seeking to divest itself of its other major United States operation, Miami-based Lums.

Any new owner of California-based IHOP will have his work cut out for him. Marginally profitable at best, IHOP Corp.—which includes some 500 International House of Pancakes, 50-odd Love's barbecue and 20 Copper Penny restaurants—has been struggling to establish growth momentum for the past two years.

A revitalization program started when Wienerwald first bought into the chain in 1979—it completed its acquisition last fall—has born some fruit, however, according to Richard K. Herzer, IHOP's president. Helped by an infusion of cash from Europe, the once highly leveraged IHOP has been gradually remodeling units and has introduced a new, pared-down menu chainwide.

Because Wienerwald is a privately held company, IHOP does not release financial results. Overall sales, however, are believed to be running at $265 million; average unit sales for the system are about $460,000 a year.

"We're basically doing just about as expected" when the revitalization program began, Herzer maintained in an interview.

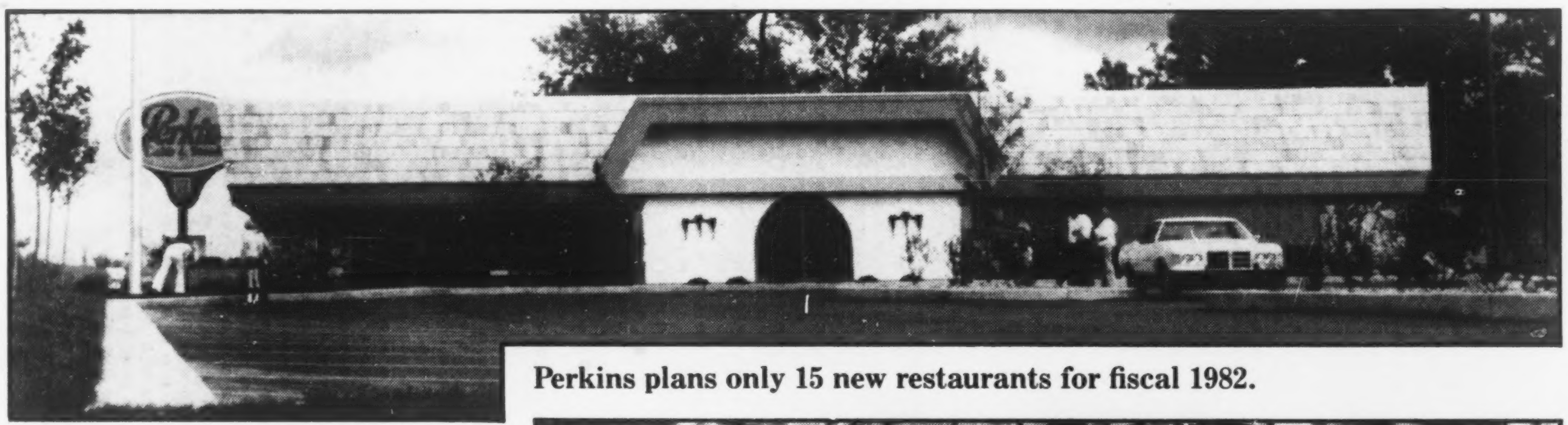
In the recent past, IHOP units have begun offering spit roasted chicken, the signature item of European Wienerwald restaurants. The introduction was designed to increase dinner traffic and apparently came at the behest of Wienerwald founder and head Friedrich Jahn. Whether IHOP officials themselves welcomed the menu move is unclear, however.

Herzer, for one, time and again has been stating breakfast items have been IHOP's lifeblood; to convert the units into a three-meal concept, he implied, would be to dilute its perceived strength in the marketplace.

Breakfast items currently account for about 70% of a typical IHOP restaurant's sales.

### PERKINS

# Changes reflect a back-to-basics concept



**Perkins plans only 15 new restaurants for fiscal 1982.**

BLOOMINGTON, Minn.—Perkins is opening only 15 new restaurants this year while continuing a back-to-basics program centering on stepped-up recruiting and training programs, improved and standardized service and food and unit upgrading.

The 343-unit family restaurant chain also is making changes based on extensive consumer research conducted last year. That research has already led to the rollout of five hamburger and two specialty sandwich platters, served with french fries and salad, which sell for about $3 each. New menu items will be in test before the end of the year.

Perkins, acquired by Holiday Inns in the late 1970's, reversed a downward spiral in customer counts last year, when traffic was up 1.4%. Customer counts were up in the first three months of this year as well. In 1979 and 1980, counts were off 14.9% and 13.3% respectively.

There were 242 franchised and 101 company-owned restaurants operating in 27 states at the beginning of this year. Future development of the chain is being done by franchisees, with about 15 franchised units scheduled to open by year's end.

Though customer counts were up in January, February and March despite severe winter weather in the upper Midwest, where most Perkins are situated, margins were off due to stable menu prices and other unit-level cost control programs, the company said.

One of the company's strategies to reverse its declining customer traffic in 1979 and 1980 has been to hold menu prices steady; guest checks are from 10% to 25% higher than the competition's, according to the company. Perkins competes with family restaurant chains and coffee shops such as Denny's, Sambo's, Shoney's and Howard Johnson, where average per-person checks are in the $3.50 to $4 range.

Perkins' all-day menu includes a full line of breakfast items, special children's selections, sandwiches and platters. The latest items are the $3 Grandwich platters which include cheesesteak on a Hoagie roll; a deli sandwich with ham, turkey, corned beef, bacon, cheeses and garnishes on a roll, and ⅓-lb. hamburgers served on whole grain buns with a choice of toppings (bacon and cheese; chili, cheese and onion; ham and cheese, and sour cream, onion and tomato). Grandwich platters are served with steak fries and salad.

The company is continuing to upgrade the exteriors of many of its older units, and is closing down some older restaurants.

Perkins contributes about 2.3% of Holiday Inns' total operating income. In fiscal 1981, ended Jan. 2, 1982, Perkins reported operating profits of $6.5 million on revenues of $96.3 million. Total systemwide sales were $265 million.

Phil Barksdale is president of Perkins.

### *PERKINS*

**Fiscal Year Ended Jan. 2, 1982 (Fiscal 1981)**

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| Systemwide Sales (Millions) | $206 | $241 | $265 | $280 |
| Revenues (Where Different From Sales) (Millions) | $30.4 | $93.1 | $96.3 | $102 |
| Operating Profit (Millions) | $2.9 | $4.2 | $6.5 | $7.0 |
| Average Store Sales | $540,000 | $648,000 | $750,000 | $772,000 |
| Number of Units | 364 | 375 | 343 | 358 |

Source: NRN research

*Projected; Fiscal 1981 ended on Jan. 2, 1982. Current fiscal year is 1982

**Perkins has held menu prices stable so far this year.**

**In the first three months of this year, customer counts were up slightly at Perkins. Holiday Inns Inc., Perkins' parent company, does not break out quarterly sales and operating profits for its subsidiaries. Holiday Inns reported total operating income of $20.7 million in the first quarter ended April 2; about 2.3% of that came from Perkins.**

## *FAMILY RESTAURANT SEGMENT*

SAMBO'S

# *Pleasers test keeps salvation hopes alive*

**By Charles Bernstein**

CARPENTERIA, Calif.—Sambo's has launched a new high-end coffee shop called Pleasers restaurant in nearby Santa Barbara which it views as a potential wave of the future and the possible salvation of the chain, if the pilot proves truly pleasing.

The one thing that's clear under the new administration of chairman Robert Luckey is that Sambo's has many strong sites among its 666 remaining restaurants but that a new concept and name are necessary to rejuvenate the chain, perhaps in a trimmed-down version.

No financial turnaround is yet evident as Sambo's struggles with a myriad of challenges. It suffered a $10.8 million net loss for its first quarter ended April 1, compared with a $9.4 million net loss for the same period last year. Average comparable restaurant sales for the first quarter dipped 20% to $100,000.

This followed a disastrous year in which Sambo's closed 447 restaurants in November and then filed for Chapter XI bankruptcy reorganization. The chain suffered a $53 million annual net loss, and on Feb. 10 Luckey, then president and chief executive of Chart House Inc., was named Sambo's chairman and ceo to replace Daniel Shaughnessy, who held the post 27 months.

***SAMBO'S***

**Fiscal Year Ended Dec. 31**

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| **Revenues (Where Different From Sales)** | $573,034 | $491,071 | $461,322 | |
| **Net Loss** | $77,779 | $11,621 | $53,011 | |
| **Loss Per Common Share** | $6.06 | $1.05 | $4.33 | |

Source: NRN research

*Projected

City Investing continues to hold 34% of the common stock and to control the board. But Robert W. Wilson, a former heavy investor in Resorts International, purchased 5.7% of the stock, and a number of others also have started investing in what is perceived as a possible stock market turnaround situation over the next year or two.

Sambo's new Pleasers restaurant, at a converted Sambo's restaurant next to the company's former corporate headquarters, has been drawing big traffic in its first few months. But the test will have to await more time because almost any new restaurant in the heart of Santa Barbara at first tends to attract hordes of people as a novelty.

### New Look

Pleasers appears to be more like a Marie Callender's than anything else. It has an average per person ticket of $5 or $6 and features a pasta bar offering a pasta, salad and garlic bread for $4.95. Among other highlights of the sharply upgraded restaurant are homemade soups, barbecued ribs, barbecued chicken, chicken, stuffed potatoes with a variety of fillings, fresh-baked muffins and key lime pie which particularly distinguish it as decidely upscale from a Sambo's.

The restaurant also serves a breakfast which resembles a Sambo's rather than a Pleasers.

After Luckey and new Sambo's president and chief operating officer Roger Kisiel visited numerous Sambo's restaurants around the country, Luckey said efforts are being directed "toward improving the cleanliness and service in the restaurants and upgrading the quality of our menu items. New staffing procedures and comprehensive employee training programs are being developed for all levels of restaurant operations."

He emphasized that "many items have been upgraded and new standards of quality control are being installed to ensure customer satisfaction."

By implication, the feeling was that Sambo's had fallen down drastically in those areas.

A program is still in progress to sell the leases on shuttered Sambo's restaurants for needed cash, or to cancel leases where no buyers are available.

BOB'S BIG BOY

# *Salad bar sales show growth*

GLENDALE, Calif.—Salad bar sales have been growing rapidly and now account for 8% to 12% of unit sales in Bob's Big Boys, says Roy Raskin, vice president of franchising for Big Boy.

The salad bars are in 90% of Bob's 220 units, Raskin says.

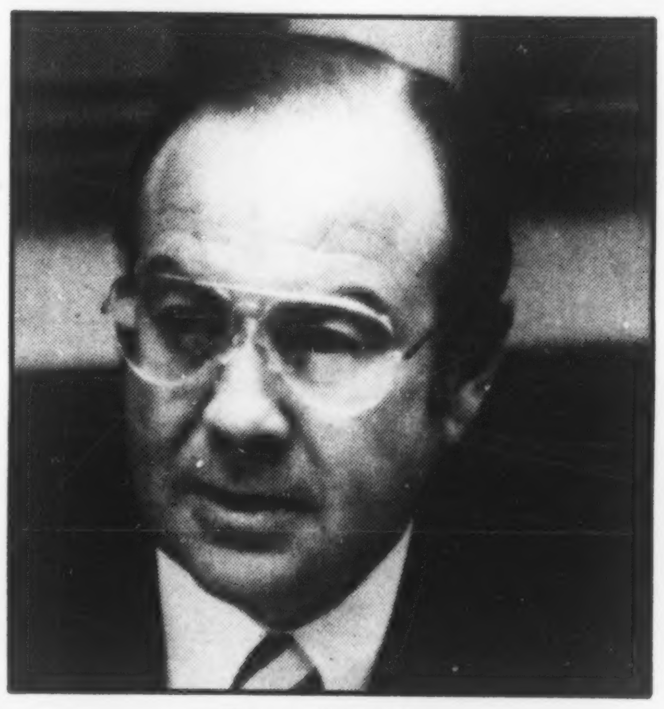
Raskin also says that new breakfast promotions have been boosting sales. The biggest of these is a deep-fried French toast special, which has two slices of the toast, two eggs and two pieces of either bacon or sausage, for $1.59 to $1.79.

Claiming that this special has been "very effective," Raskin adds, "It hasn't taken away from the more expensive breakfast choices and it's brought in those who wouldn't normally stop in for breakfast."

Customer counts have also been improved by remodeling the restaurants, Raskin says. Many units now have what he calls a "plusher look" with the addition of new wall coverings, carpeting and light fixtures. Some Midwest units have added extensions to make an atrium or greenhouse effect. These moves are to attract customers who want "ambience" along with their meals, says Raskin.

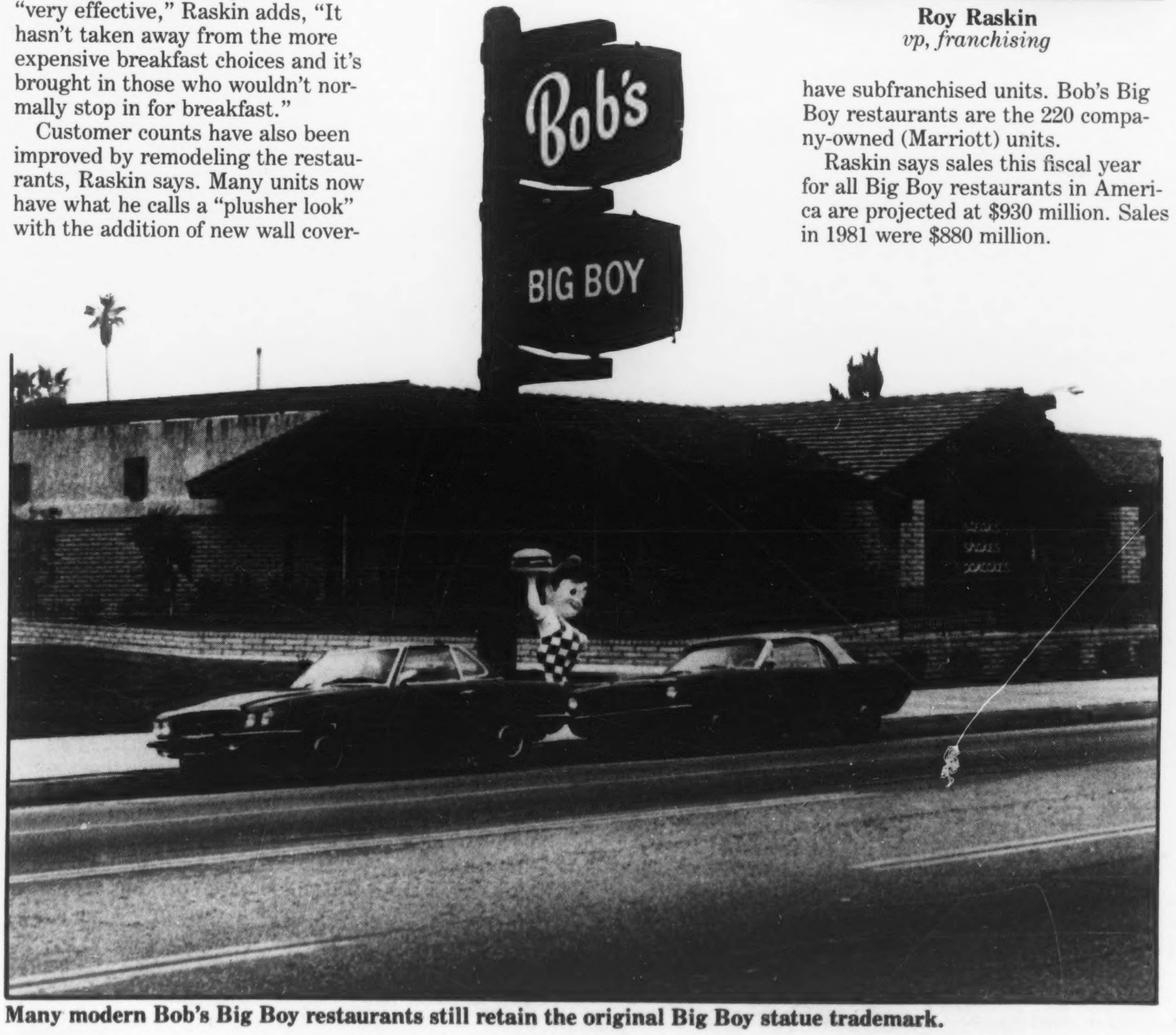
"We're moving away from the coffee shop look," he adds.

There are currently about 1,180 Big Boy restaurants nationwide, operated by 21 different corporations. Marriott Corp. owns the rights to the Big Boy name and trademark and has many franchisees, some of whom have subfranchised units. Bob's Big Boy restaurants are the 220 company-owned (Marriott) units.



**Roy Raskin**
*vp, franchising*

Raskin says sales this fiscal year for all Big Boy restaurants in America are projected at $930 million. Sales in 1981 were $880 million.



**Many modern Bob's Big Boy restaurants still retain the original Big Boy statue trademark.**

# NRN FOCUS

## *FAMILY RESTAURANT SEGMENT*

FRISCH'S

## *Ready to grow again after two-year hiatus*

CINCINNATI—After a hiatus of two years, Frisch's Restaurants is planning to once again build new units, according to Louis Ullman, the company's financial vice president.

Frisch's restaurant holdings include about 110 Big Boys, 25 Roy Rogers and four Prime 'n Wine specialty restaurants. It also franchises about 95 Big Boys. Restaurants are located in seven states: Ohio, Kentucky, Indiana, Florida, Texas, Oklahoma and Kansas.

Frisch's, a publicly held company, for the past two years halted virtually all growth to concentrate on strengthening unit-level controls and to increase overall profitability, Ullman said. These efforts included restaurant remodeling and operational improvements, such as increasing speed of service.

Ullman did not say how many new restaurants would be built.

In the most recent available financial report, Frisch's said net income for the first nine months ended March 7 rose 55% to $2.8 million. Revenue increased 4.4% to $81 million over the prior year's.

***FRISCH'S***

**Fiscal Year Ended May 30**

| | 1980 | 1981 | 1982† | Current Fiscal Year* |
|---|---|---|---|---|
| **Systemwide Sales (Millions)** | $140.0 | $152.0 | $160.0 | $170.0 |
| **Revenues (Millions)** | $101.0 | $103.0 | $107.0 | $115.0 |
| **Net Profit (Millions)** | $2.4 | $2.9 | $3.7 | $4.5 |
| **Average Store Sales** | $630,000 | $650,000 | $675,000 | $710,000 |
| **Number of Units** | 238 | 233 | 234 | 240 |

Source: NRN research

*Projected

†Estimated

**For the nine months ended March 7, Frisch's reported a net income gain of 55.4% to $2.8 million, on revenue that rose 4.3% to $81 million, over the prior year's comparable period.**

**Jack Maier**
*president*

**Louis Ullman**
*vp, finance*

VICTORIA STATION

## *Niglio facing tough job to maintain recovery pace*

*(Continued from page 93)*

he can thoroughly assess all the studies commissioned by Collins and meet all the management personnel who have survived recent executive realignments.

Victoria Station performed a $7 million turnaround in fiscal 1982, posting profits of $1.2 million on revenues of $123.9 million, as opposed to the $6.3 million loss on revenues of $134.9 million recorded in 1981. The actual earnings turn was closer to $6.2 million if adjustments are made to eliminate special one-time charges and credits in 1981 and 1982.

The 8.2% decline in revenues in 1982 was due primarily to an 8.4% decrease in the number of dinners served, the closure of some units and a 12.4% decrease in the number of units serving lunch.

According to company sources, the 1982 profit was due to a cost-of-sales reduction (to 34.6%), an expanded menu and improved operating and purchasing practices.

Outside research done under Collins' regime indicated that the Victoria Station dining experience lacked excitement and memorability in the public's perception. Indications were that a gradual switch to a Houlihan's-type atmosphere was being planned.

The smaller workload in number of tables served by waiters, a concept already being tested, was thought to improve customer satisfaction by involving the waiter in all aspects of service, from cocktails and food to busing. The increased labor costs which the plan would dictate would be offset by a new labor productivity program, according to company plans.

Skylights, new color schemes and lighting improvements were other short-term changes implemented in many stores as executive power was changing hands. Six VS properties have been sold off in the last two years.

Niglio has already established among his first priorities the continuation of menu development and fine tuning. He also has said the need exists for a more precise definition of the customer type/market segment at which VS would be directing future marketing efforts. Niglio's strategies for enhancing Victoria Station's long-term profit picture are certain to crystalize in the coming weeks.

If Collins' suspicion is correct that the company's boxcar theme had grown stagnant over its 13-year life, then a major shift in image may yet materialize.

JERRICO

## *Plan expanded test of baked fish entree*

LEXINGTON, Ky.—Jerrico's Long John Silver's Seafood Shoppes are expanding a test of a baked fish platter into a new market this summer. A decision on whether to go into additional markets is expected by September.

The 1,300-unit chain views baked fish not as just another menu addition, but as a way of opening up an entire new market of nutrition-conscious consumers; early advertising has played on the "health" theme.

The latest test market is Youngstown, Ohio.

Some analysts believe that once rolled out, baked fish products will account for 30% of Jerrico's sales. But the company has been slow in expanding the test, mainly because of the cost of new equipment and store remodeling that's needed to accommodate the product. Jerrico has placed the cost at $30,000 per store.

For the first nine months of the past fiscal year, which ended June 30, company-operated stores showed a negative real growth of 3%, after considering price increases of 4%. The company blamed the decline partly on severe winter weather during the third quarter.

Despite that lackluster performance, the Lexington, Ky.-based chain is deemed well-positioned to increase both its sales and market share in the fast seafood category. Part of the reason is thought to be the relative lack of competition and market penetration in seafood.

Long John Silver's already commands about 50% of the market. Its nearest competitor is Shoney's Captain D's, with 400 units, while Arthur Treacher's, though perhaps best known of all the seafood chains, has virtually collapsed following an extended franchisee revolt.

***JERRICO***

**Fiscal Year Ended June 30**

| | 1980 | 1981 | 1982 | Current Fiscal Year* |
|---|---|---|---|---|
| **Systemwide Restaurant Sales Long John Silver's** | $386,600 | $463,900 | $540,000 | |
| **Jerry's Coffee Shop's and others** | $41,400 | $44,000 | $48,000 | |
| **Total** | $428,000 | 507,900 | $588,000 | |
| **Revenues (Where Different From Sales) (Millions)** | $316.1 | $379.4 | $440.0 | |
| **Net Profit (Millions)** | $15.9 | $21.0 | $24.0 | |
| **Average Store Sales Company-operated Long John Silver's** | $399,000 | $453,000 | $500,000 | |
| **Jerry's** | $590,000 | $632,000 | $665,000 | |
| **Number of Units Long John Silver's** | 1,033 | 1,125 | 1,250 | 1,375 |
| **Jerry's** | 71 | 71 | 72 | 73 |

Source: NRN research

*Projected

## HOTEL SEGMENT

# Lodging chains spotlighting restaurants more than ever

**By Joe Edwards**

**When lodging chains advertise these days, they concentrate on the quality of their restaurants more than at any time in recent memory. For a variety of reasons, hotels are putting great emphasis on food service.**

**Between 40% and 50% of total sales at some top chains come from restaurants, bars, room service and banquet halls. Industrywide, about 34¢ of every lodging dollar is generated by food and beverage sales.**

**Usually scorned by critics, some hotel restaurants are even achieving gourmet status: Omni International's two hotel restaurants in Atlanta won *Travel/Holiday* fine dining awards this year. In secondary cities where several major chains are concentrating their expansion efforts, hotel restaurants are sometimes the best restaurants in town.**

**Marketing of hotel restaurants to a local clientele is also taking place in major cities, although in some cases the hotel restaurants have an identity (and an entrance) all their own. The Intercontinental Hotel in New York does not mention the hotel in its ads for La Recolte, its upscale tablecloth restaurant which has an entrance around the corner from the main lobby.**

**Chains such as Hilton International, Hilton Hotels, Hyatt Hotels, Westin, Sheraton, Marriott and others attach their names to their hotel restaurants and market the restaurants to local residents as well as guests.**

**Realizing the importance of food service, even chains without their own restaurants are developing properties in conjunction with restaurant chains: Bob Evans Farms and Tanglewood Farms, two regional coffee shop chains, have opened restaurants adjacent to La Quinta properties.**

**Chains as diverse as Denny's family restaurants and The Palm upscale steakhouses have several units in leased hotel space. Many Holiday Inns have independent restaurants on the premises.**

**Hotels continue to feel the effects of the recession; all segments of the industry have seen a dropoff in occupancy rates so far this year, except for airport hotels; much future development is expected at airport sites. The occupancy rate at all hotels and motels is about 63% this year, down from the 67% rate in 1981, according to Laventhol & Horwath, an accounting firm which tracks the industry. (Airport hotels have a 72.4% occupancy rate.)**

**The industry continues to attract institutional investors and major hotel properties are under construction throughout the country. Many chains are opting for management contracts to operate hotels which are owned by others. Marriott, which has been expanding through such arrangements, is opening about 18 properties this year; the chain enjoys a 79% occupancy rate.**

**Several chains are experimenting with new concepts. Ramada Inns has been opening upscale Ramada Renaissance Hotels and Holiday Inns is ready to develop 25 upscale hotels positioned on the upper end of the midpriced segment. Several chains are interested in developing properties with suites to appeal not only to overnight guests but vacationers and relocated families looking for homes.**

**Some budget chains, notably La Quinta and Days Inns, are reaping the benefits of a trading-down trend as businesses cut back on expense accounts for their traveling executives.**

## HOLIDAY INNS

# *2 new hotel concepts on the drawing board*

MEMPHIS—With its transformation into a company with three distinct but related operating groups—hotels, restaurants and casinos—finally complete, Holiday Inns Inc. has embarked on a major expansion effort which includes the development of two new hotel concepts.

On the drawing boards at headquarters here is a $1.25 billion joint venture with W. B. Johnson Properties Inc., an Atlanta-based franchisee, to build 25 upscale, high-rise Holiday Inn Plaza hotels in metropolitan areas in the next 10 years.

Holiday Inns has been flirting with the upper end of the midpriced hotel segment for several years, but this will be the company's first serious thrust to compete with chains such as Marriott and Hyatt in lucrative urban markets.

Holiday Inn Plaza hotels will have 400 rooms or more each and will have meeting facilities and public areas, unlike the mainstream, roadside Holiday Inns that helped define the domestic lodging industry for so many years.

The new hotel concept will offer guests more amenities than the average Holiday Inn hotel. Rooms will be priced in the $80 to $90 range in some major cities, compared to the average rate of $40 a night at existing company-owned hotels.

W. B. Johnson Properties, which franchises 10 Holiday Inns and also is involved with hotel development for Marriott and other chains, is financing the projects by selling equity in the properties to insurance companies after they pay off Johnson's bank construction loans.

Plans were to be finalized this summer and construction was expected to begin this year on the first Holiday Inn Plazas in New York, Los Angeles and San Francisco.

Holiday Inn Plazas fit in with the company's stated desire to expand in major destination sites—primarily downtown and airport areas—to attract business travelers. Traditional high-rise Holiday Inns are under construction at airports in San Francisco, San Antonio, Texas and Los Angeles.

Bob Milburn, senior vice president for hotel group development, finance and planning, clarified the company's intentions recently by explaining that Holiday Inns is not making a foray into the luxury hotel segment. The Plaza hotels will be on the upper end of the midpriced scale and offer more guest amenities, modest meeting facilities and more public areas, Milburn said.

The second concept being developed by Holiday Inns is hotels with suites, offering sitting rooms, bathrooms, wet bars and one or two bedrooms. The suites will be marketed not only to business travellers but to families searching for new homes or travellers who don't want to stay in traditional hotels.

Holiday Inns, with about 1,750 hotels now operating worldwide, plans to add 67,000 new rooms to its system by 1985 at a cost of $3.5 billion. By the end of that year, there will be a net total of 344,000 rooms in the Holiday Inns system, making it the largest lodging chain in the world by a wide margin.

Holiday Inns, which has captured 16% of the total domestic lodging market, has been opening a hotel at the rate of about one every five days for the last couple of years. This year, about 17 company-owned, 28 fran-

*(Continued on page 124)*

## MARRIOTT CORP.

# *Expansion plans keyed to management contracts*

WASHINGTON—Marriott Corp. is adding about 10,000 new rooms to its growing inventory this year by opening 18 new properties and expanding the number of rooms and size of facilities at four existing hotels.

The diversified lodging, food-service and entertainment company owns, operates and franchises 105 hotels and resorts, mostly in the United States, through its Hotel Group, which reported sales of close to $821 million in 1981.

Other operating groups include contract food service, which provides in-flight meals for about 100 airlines and food service at airport terminals, restaurants on limited access highways and for businesses, schools and health care institutions; restaurants, primarily Roy Rogers, Gino's, Rustler steakhouses, Big Boy, and Hot Shoppes; two Great America theme parks, and the Sun Line cruise ships.

Food and beverage sales at Marriott hotels were about $303.8 million in 1981, up from $243 million the previous year. Restaurants and other nonroom items at Marriott hotels accounted for 47% of total Hotel Group sales last year.

Despite the economy, which has caused a cutback in travel, Marriott's hotels continue to enjoy an occupancy rate of 79%, about 12 percentage points higher than the industry average.

Marriott's room rates are expected to exceed the inflation rate again this year, although not by as wide a margin as in the past. Hotel Group sales rose 34% in the first quarter, ended March 26, partly due to room rate hikes, a slight increase in occupancy and the contribution of 23 hotels added in 1981.

Marriott is continuing on an expansion course keyed to the signing of long-term management contracts at hotels owned by others. The management contracts typically run for 25 to 30 years, with renewal options of up to 50 years.

Of the 98 Marriott hotels operating at the end of 1981, the company owned 21 with 8,530 rooms; managed or leased 53 others with 24,558 rooms, and franchised 24 with 7,331 rooms.

Most new hotels will be operated by Marriott and owned by others. Franchising will be limited to control quality, a spokesman said.

Marriott executives point out that the company-owned hotels are valued at $755 million and could be sold and converted to long-term management agreements. In the last seven years, about $420 million in hotel equity has been sold by Marriott, primarily to institutional investors.

Expansion is being financed in several alternative ways, including a hotel equity syndication in which 11 hotels costing $365 million are debt financed by commercial banks and offered to investors in the form of limited partnership interests. Marriott will operate the hotels.

Sales and operating income for hotels increased about 25% each annually from 1976 to 1980. In 1981, sales were up 25% and operating income 12%.

Net income in 1981 was $86.1 million on total systemwide sales for all businesses of $2 billion. In the first quarter of this year, Marriott reported net income of $16.9 million, compared to $14.3 million for the same period in 1981, on total sales of $516.2 million, up from $412.5 million in 1981's first quarter.

The Hotel Group reported operating income of $35.7 million on sales of $243.6 million in the first quarter.

A closer look at Marriott's restaurant and contract feeding groups can be found elsewhere in this section.

J. Willard Marriott is founder and chairman of the board and J. W. Marriott Jr. is president and chief executive officer.

# NRN FOCUS

## *HOTEL SEGMENT*

### *THE SHERATON CORPORATION*

**Fiscal Year Ended Dec. 31**

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| **Systemwide Food & Beverage Sales (Millions)** | $630 | $735 | $840 | $940 |
| **Number of Food & Beverage Units** | 968 | 1,095 | 1,138 | 1,180 |

Source: NRN research

*Projected

HYATT HOTELS CORP.

### *Expansion scenario targets mostly secondary U.S. cities*

ROSEMONT, Ill.—Hyatt Hotels Corp. is opening between eight and 12 hotels this year, most of them in secondary cities such as San Antonio, Tex.; New Brunswick, N.J.; Greenville, S.C., and Tampa, Fla.

As has been the private company's practice, most of the hotels will feature several restaurants and bars. Hyatt promotes food service through its "Touch of Class" advertising campaign and close to 50% of Hyatt's $1 billion sales in fiscal 1981, ended Jan. 31, 1982, came from restaurants, bars, banquets and room service.

One of the company's newest properties is the 615-room Hyatt Regency Crystal City near the Washington, D.C., National Airport.

Hyatt ranks No. 20 among worldwide lodging companies in terms of total number of rooms. At the end of fiscal 1981, there were about 34,000 rooms in the Hyatt system.

Hyatt Hotels Corp. is expanding at a modest pace mostly through management contracts in much the same fashion as other chains in the high-priced segment.

Only about eight of the hotels in the system are owned by the company; Hyatt has some equity interest in the 40 or so hotels that are majority owned by others. Several Hyatts are owned outright by Pritzker family trusts.

The Pritzkers are a Chicago family which took the company private in 1979. They also have an 80% interest in Hyatt International, a separate company which is publicly owned. There are about 40 Hyatt International Hotels in 23 countries. Hyatt International operates Vista International hotels in the United States.

The Nevada-based Elsinore Corp. is also controlled by the Pritzker family. Elsinore operates two hotel-casinos in Las Vegas and Lake Tahoe, Nev., and is a partner in the Playboy hotel-casino in Atlantic City.

Jay A. Pritzker is chairman of Hyatt Hotels Corp. Pat Foley is president of Hyatt Hotels.

### *HOLIDAY INNS*

**Fiscal Year Ended January 1982 (Fiscal 1981)**

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| **Total Revenues (Billions)** | $1.1 | $1.5 | $1.7 | $1.8 |
| **Revenues From Rooms (Millions)** | $402 | $434.5 | $448.6 | |
| **Revenues From Hotel Food and Beverage (Millions)** | $178 | $187.7 | $177.5 | |
| **Net Income (Millions)** | $55 | $108 | $137 | |
| **Operating Income+ Hotels (Millions)** | $137.3 | $154.6 | $170.9 | |
| **Gaming (Millions)** | $1.0 | $24.1 | $56.2 | |
| **Restaurants++ (Millions)** | $2.9 | $4.2 | $6.5 | |
| **Occupancy Rates**** | 73.8% | 71.5% | 69.2% | 67% |
| **Average Rate Per Occupied Room**** | $32.65 | $36.80 | $40.79 | |
| **Number of Hotels** | 1,741 | 1,755 | 1,749 | 1,800 |

Source: Company reports; NRN research

*Projected

**Occupancy rates and average room rates are for company-owned and operated hotels only.

+Operating income does not include figures from steamships and other properties.

++Details on Perkins, the Holiday Inns subsidiary, are printed in the coffee shop/family restaurant section.

**Holiday Inns Inc. reported profits of $24.6 million on revenues of $332.5 million for the first quarter ended April 2.**

SHERATON

### *New promotional package geared to health, nutrition*

BOSTON—Sheraton is readying a so-called "Eat, Drink and be Healthy" promotional package that ties in its restaurants' "nutritional" foods with available health and recreational facilities.

Under the program, guests checking into a Sheraton will receive various brochures highlighting, for example, low calorie menu items offered at the hotel's food and beverage outlets. Other literature will direct the guest to local health clubs or jogging paths.

The program is part of the Boston-based hotel company's policy to reflect current lifestyles and consumer preferences in its food and beverage operations, according to Stephen Peeck, director of Sheraton's North American food and beverage operations.

In line with that strategy, Sheraton also continues to emphasize the "new" American cuisine as well as American wines at many of its top-of-the-line, "signature" restaurants. These restaurants—no two are alike—now number about 30 and are designed to appeal both to hotel guests and local residents.

Peeck said overall food and beverage sales as a ratio of room sales were "holding up well," although catering operations had softened because many United States companies, feeling the recession's pinch, have been holding fewer and smaller conventions.

Sheraton operates over 400 hotels and inns worldwide, including about 350 in the United States. A total of seven new company-owned properties are scheduled to open this year.

### *HYATT HOTELS CORP.*

**Fiscal Year Ended Jan. 31 (Fiscal 1981)**

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| **Systemwide Sales (Millions)** | $600 | $750 | $1,000 | $1,200 |
| **Total Room Sales (Millions)** | $325 | $400 | $535 | $650 |
| **Total Food and Beverage Sales (Millions)** | $275 | $350 | $410 | $550 |
| **Number of Units** | 51 | 56 | 62 | 70 |

Source: NRN research

*Projected

**Hyatt Hotels Corp. is a private company and does not release quarterly sales reports or income figures.**

HOLIDAY INNS

### *Developing 2 new concepts*

*(Continued from page 123)*

chised and 13 foreign hotels will open.

The company has been "very aggressive in investing our own money in the hotel business," Milburn said, adding that in the next three years $1 billion, most of it from internally generated cash, will be invested in new properties.

The company will continue to emphasize franchising for expansion but will consider management contracts and joint ventures for some company-operated properties, Milburn said. More than 1,500 Holiday Inns are franchised properties.

Holiday Inns' two-year-old involvement in casinos has been paying off. Operating income from the company's hotel-casinos in Nevada and New Jersey more than doubled in 1981 to $56.2 million. First quarter income from all continuing operations rose 48.6% to $20.8 million, primarily due to "excellent results" achieved by the gaming group, according to a spokesman.

Harrah's Marina, the only casino operating away from the Atlantic City, N.J., boardwalk, received a permanent license last November. The company owns 4.5 acres on the boardwalk where it is building a second hotel-casino in a joint venture with a New York real estate firm.

Holiday Inns, after a top management change in the mid-1970's, began selling off its many subsidiaries which were not directly related to the hospitality industry.

The last of these companies, Delta Steamship Lines Inc., was offered for sale earlier this year. Holiday Inns now owns, operates and franchises hotels, hotel-casinos, hotel restaurants and Perkins, the family restaurant chain.

Occupancy rates at company-owned domestic properties are off about two percentage points this year, to 67%, the average occupancy rate for all domestic hotels and motels, according to most recent figures.

Holiday Inns Inc. reported net income of $137 million on total systemwide revenues of $1.7 billion for fiscal 1981, ended Jan. 2, 1982.

Roy E. Winegardner is board chairman and Michael D. Rose president and chief executive.

# NRN FOCUS

## *HOTEL SEGMENT*

HILTON HOTELS CORP.

### *Recession forcing cut in immediate expansion*

**Hilton's Las Vegas operations have been slumping, with the Las Vegas Hilton, scene of a disastrous fire last year, still not fully recovered.**

BEVERLY HILLS, Calif.—Hilton Hotels Corp. is battening down the hatches and apparently bracing to report the first year-end earnings dip since 1976.

A recession, for the first time since gambling was legalized, has rolled snake eyes for Nevada, where Hilton's three casino-hotels supply two-fifths of the company's revenues.

Air traffic to the desert resort is down by 8%, cutting occupancy at Hilton's operations by five points to 78% for the first quarter ended March 31.

The decline was led by the Las Vegas Hilton, still slumping from last year's disastrous fire. Hilton's newest Nevada acquisition, the Reno Hotel purchased in December for $34.5 million, is expected to run at a loss through the year.

Occupancy rates at Hilton's other owned and managed properties dipped two points in the first quarter to 63%, led by a three-point decline in owned properties to 59%.

The first-quarter financial figures reflected the occupancy figures. Net profit in the first quarter fell 19% to $22 million while operating income fell 21% to $38.4 million. The Nevada properties' operating profit was down 31%. Revenues gained 6% to $155.3 million.

Hilton needs a pickup in convention business to turn the first-quarter auguries into year-end gains. But that is unlikely since Hilton's trends follow by at least two quarters the general economy and second-quarter figures were expected to echo the first quarter.

Hilton is reacting to the setbacks by scaling down this year's expansion.

Hilton canceled immediate plans for a new convention hotel in Chicago and a casino-hotel in Atlantic City, N.J., blaming depressed occupancy rates and volatile money markets.

Instead, Hilton is proceeding on more modest projects which will add by year-end 1,700 rooms to last year's base of 37,800 rooms in owned and managed properties.

In the franchise system, of 21 Hilton Inns under construction at the beginning of this year, 15 new Inns are due to open by the end of the year. Thirteen others will have been expanded, according to company plans.

Food and beverage operations, bound up with occupancy rates, are showing the strain as expenses outpace sales.

In the first quarter, food and beverage sales in owned properties rose 4% to $161.4 million but expenses rose 5% to $118.3 million.

Total sales in owned properties, which includes rooms, casino and food and beverage revenue, rose 3% in the first quarter, compared to a year ago, to $525.4 million.

For the year-ended Dec. 31, 1981, the company had total revenues of $612.7 million and net profits of $112.6 million. Both were gains of about 6% over 1980, making 1981 the worst year since huge declines in 1976.

Food and beverage sales at Hilton's owned and managed hotels in fiscal 1981 rose 6% to $369.3 million. The corporation does not tally food and beverage revenues from franchisees since royalties are based solely on rooms sales.

The Hilton system consisted at the end of last year of 17 owned hotels, averaging 1,000 rooms each; 31 managed or partly owned hotels, with about 700 rooms each, and 173 franchised Inns, which average 250 rooms each.

When Barron Hilton, chairman, president and 25%-owner of the company met stockholders recently, he griped: "What a trying year we had." This year looks to be at least as trying.

#### *HILTON HOTELS CORP.*

**Fiscal Year Ended Dec. 31**

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| **Corporate Revenues (Millions)** | $527.6 | $575.6 | $612.7 | $614.9 |
| **Net Profit (Millions)** | 99.3 | 106.1 | 112.6 | 110.7 |
| **Company-Owned Hotels** | | | | |
| **Total Sales (Millions)** | 481.4 | 512.3 | 525.4 | |
| **Food and Beverage Sales (Millions)** | 150.5 | 155.0 | 161.4 | |
| **Food and Beverage Expenses (Millions)** | 107.5 | 112.6 | 118.3 | |
| **Food and Beverage Sales For Company-Owned and Managed Hotels (Millions)** | 315.3 | 347.5 | 369.3 | |
| **Total Units** | | | | |
| **Company-Owned** | 17 | 17 | 17 | 17 |
| **Company-Managed** | 21 | 29 | 31 | 33 |
| **Franchised** | 145 | 163 | 173 | 188 |

Source: NRN research

*Projected

**In the first quarter ended March 31, 1982, net profits were $21.9 million and revenues were $155.3 million. Food and beverage sales in company-owned hotels were $40.4 million and food and beverage expenses were $30.7 million.**

RAMADA INNS

### *Plunging into mid-priced lodging market with new concept*

PHOENIX—Ramada Inns is still suffering financially from the delays and construction problems it encountered before it was finally able to open the doors of the Tropicana Hotel and Casino in Atlantic City.

But on other fronts company business is relatively flush despite depression in the lodging industry. The Ramada Hotel Group has enjoyed 19 straight months of occupancy growth, while occupancy in United States hotels in general has been going down for 42 straight months, according to Juergen E. Bartels, Ramada Inns executive vice president and hotel group president.

The company has announced big expansion plans including the addition to its arsenal of a new class of hotels to service midpriced markets in medium-sized cities and at airports.

Called Ramada Hotels, the new units will fit between the Ramada Inns and semiluxury Ramada Renaissance properties. Plans call for 50 Ramada Hotels by the middle of next year and a total of 110 by the end of 1985.

The new hotel classification will give Ramada three distinct room rate ranges in many markets.

The company is also continuing its program to revamp its Ramada Inns and eliminate from the system any that don't measure up to standards. And it is moving vigorously with the Ramada Renaissance concept. Over a billion dollars has been committed to Ramada Renaissance development. Seven are operating today; 17 more are in various stages of planning or construction. By the end of 1985 the company hopes to have 42 in operation.

Ramada is also making changes in two of its three major restaurant concepts. In its Seasons, which stress unusual sandwiches, separate lunch and dinner menus were recently introduced. Four of these restaurants are open, but new units are scheduled to bring the total to 20 by year-end.

The company's Summerfield concept has also been reworked with the addition of a range of ethnic dishes, including Mexican, Oriental and Hungarian ones. A total of 21 new offerings are being made on (also new) separate lunch and dinner menus. The addition of a separate dinner menu is expected to give a considerable boost to sales. Seven Summerfields will open this year.

No major changes are planned for Ramada's limited menu Sun Blossoms.

Ramada Hotel Group profitability for fiscal 1981, ended Dec. 31, 1981, was 12% ahead of the prior year. Ramada Inns itself suffered a $30.5 million loss for the year on revenue of $415.9 million. About a third of Ramada's revenue in company-owned hotels comes from food-service sales.

As of May 31 Ramada owned or franchised 612 hotels with 95,108 rooms. The average room rate throughout the system is projected at $38.19. Occupancy is expected to average 68.3% compared to a 67.9% rate last year.

# NRN FOCUS

## *HOTEL SEGMENT*

HILTON INTERNATIONAL CO.

# *Cashing in on economic growth outside U.S.*

NEW YORK—With four new hotels and two expansion projects this year, Hilton International plans to add 1,500 rooms, a 16% two-year gain, to last year's base of 31,800 rooms at 85 properties in 44 nations.

The wholly owned subsidiary of Trans World Corp., an airline holding company, plans new hotels at Gatwick Airport, Great Britain; Karlsruhe, West Germany; Adelaide, Australia, and a second United States property, a Vista hotel in Philadelphia. Expansions are slated for Cyprus and Kuwait.

The first Vista opened last year at the World Trade Center in New York. A third Vista is due to open in mid-1983 in Washington, D.C., but the deal for a Vista in Kansas City, Mo., now a 2½-year-old plan, has reportedly yet to be finalized.

Hilton International became a separate company from Hilton Hotels in 1964 and three years later was taken over by TWA. It cannot use the trademark Hilton name in the United States, hence Vista, but the two companies share reservation systems. Hilton International is by far healthier than its United States-bound sibling.

With growth projections of the worldwide economy showing strength in diversity, it figures again this year to be the star profit center of Trans World, which, in addition to the beleaguered airline, owns Spartan Food Systems, a 242-unit Hardee's franchisee and developer of the 99-unit Quincy's budget steakhouse chain, Canteen Corp., a contract feeder, and Century 21, a real estate agency chain.

While Spartan is scoring solid growth, Canteen, Century 21 and TWA are feeling the pinch of the recession.

Hilton International had $73.4 million in operating profit on $684.2 million in revenue for the fiscal year ended Dec. 31, 1981.

Hilton International executives are basing their growth plans on data from the 11-nation Organization for Economic Cooperation and Development which shows that the major industrial economies—with the notable exception of the United States—are due for real growth, single-digit inflation, and interest rate declines.

Food and beverage figures are riding the crest of the growth wave.

In hotel properties, food and beverage sales last year rose 10% to $303 million. This is more than two-fifths of total revenues.

In addition, sales from food service and food-related retailing at Inhilco, a Hilton International subsidiary which operates concessions and the Windows on the World restaurant at the World Trade Center, totaled $166.2 million last year, a 10% increase over 1980.

Companywide, Trans World reported for fiscal 1981 $61.6 million in net profit, a 9% drop from 1980, and $5.3 billion in revenue, a 6% gain from 1980.

By business segments, the airline last year had $30.6 million of operating profit on $3.5 billion in revenue. Spartan had $30.3 million of operating profit on $243.4 million in revenue. Canteen had $22.1 million operating profit on $790.4 million revenue.

### *HILTON INTERNATIONAL CO.*

**Fiscal Year Ended Dec. 31**

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| **Operating Revenues** | | | | |
| **Food and Beverage (Millions)** | $248.5 | $276.6 | $303.0 | $325.0 |
| **Rooms (Millions)** | $236.2 | $271.1 | $293.0 | $310.0 |
| **Other Depts. (Millions)** | $53.2 | $58.7 | $63.0 | $67.0 |
| **Management Fees (Millions)** | $18.4 | $21.9 | $25.2 | $29.0 |
| **Total Revenues (Millions)** | $556.3 | $628.3 | $684.2 | $731.0 |
| **Operating Profit (Millions)** | $55.5 | $65.8 | $73.4 | |
| **Number Of Hotels** | 78 | 79 | 85 | 89 |
| **Number Of Rooms** | 28,521 | 28,837 | 31,811 | 33,350 |
| **Occupancy Rate** | 75% | 73% | 71% | |

Source: NRN research

*Projected

**Trans World Corp. reported that its wholly owned subsidiary Hilton International Co. had operating expenses of $161.2 million on operating revenues of $176.1 million for the first quarter ended March 31, 1982. Occupancy rates in the period slid two points to 67% compared to the prior year period. Average room rates rose about 6% from the year-ago quarter.**

WESTIN HOTELS

# *Developing new properties both foreign and domestic*

SEATTLE—Westin Hotels is developing commercial and resort hotels in major foreign and domestic cities, paying particular attention to projects in the Far East and Mexico.

By the end of this year, the wholly owned subsidiary of UAL Inc., United Airlines' parent, will have opened major additions to its hotels in Johannesburg, South Africa, Phoenix and Seattle. The first phase of a resort complex in Vail, Colo., will open in time for next winter's ski season.

Westin, which changed its name from Western International last year, will open hotels in Boston, Dallas, Ottawa and Tijuana, Mexico, in 1983, as part of a six-year plan to add 23 hotels to its system by 1985.

### Varied Arrangements

Westin owns and operates 46 hotels through a mixture of ownership arrangements and management contracts. A little more than 50% of its hotel rooms are in properties in which Westin has equity. The company manages 11 hotels with 5,952 rooms; leases and manages six hotels with 3,164 rooms, and is involved in joint ventures at four hotels with 2,665 rooms. There are close to 25,000 rooms in the Westin system.

Up until the first quarter of this year, Westin had weathered the recession fairly well and was the only one of three UAL Inc. subsidiaries to show a profit in 1981. Net income was up 12% to $35.4 million on a 7% rise in operating revenues to $454.3 million.

### Occupancy Rate Erodes

Occupancy dipped more than three percentage points to 77% last year, well above the industry average; the earnings increase was attributed to higher revenues, cost controls and improved profitability from newer hotels, a spokesman said.

Westin's occupancy rate eroded even further in the first three months of this year, however, and net profit dipped to $2.3 million from $7.1 million in 1981's first quarter on hotel operating revenues of $112.1 million.

The decline in net earnings was "principally the result of the recession and a substantial swing in foreign currency translations," according to a company statement.

Most Westin properties offer 24-hour room service and several restaurants and lounges and in the past few years food and beverage sales have accounted for about 45% of total sales. Food and beverage sales in 1981 rose to $435.1 million from $374 million the year before.

Operating revenues of $454.3 million in 1981 were from those properties in which UAL Inc. or Westin have 51% or larger equity or leasehold interest; management fees or an interest in joint ventures. Total operating revenues for all hotels owned or managed by Westin were $967 million.

Perhaps Westin's most prestigious property is The Plaza, a New York City landmark hotel. Westin also operates the world's tallest hotel, the cylindrical, 72-story Peachtree Plaza convention hotel in Atlanta. A scene from Burt Reynold's recent movie, "Sharkey's Machine," showed someone plummeting out an upper floor window of the Peachtree Plaza. Scenes from many movies, most recently "Arthur," were filmed in and around the Plaza in Manhattan.

Harry Mullikin is chairman and chief executive of Westin Hotels. C. R. Lindquist is president.

### *WESTIN HOTELS*

**Fiscal Year Ended Dec. 31**

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| **Systemwide Hotel Operating Revenues + (Millions)** | $750 | $850 | $967 | $950 |
| **Consolidated Hotel Operating Revenues + (Millions)** | $383.7 | $425.9 | $454.3 | $450 |
| **Earnings from Operations (Millions)** | $63.7 | $72.5 | $74.6 | $73 |
| **Net Profit (Millions) +** | N/A | $31.4 | $35.4 | |
| **Total Food and Beverage Sales (Millions)** | $345 | $374 | $435.1 | $225 |
| **Total Number of Hotels** | 52 | 55 | 46 | 47 |
| **Occupancy Rate** | 81.3% | 80.4% | 77% | 76% |

Source: NRN research

*Projected

+Westin Hotels has a variety of interests in its hotel properties through equity arrangements, leasehold arrangements, joint ventures, and management contracts. Systemwide hotel operating revenues represent revenues from all Westin hotels, owned and managed. Consolidated operating revenues are revenues from managed properties only. Net profit includes management fees and fees from hotels Westin solely represents.

**In the first quarter ended late March, net earnings were $2.3 million on total operating revenues of $112.1 million.**

# NRN FOCUS

## *Top 100 Chains by Sales Volume*

| Sales Rank | Company (Headquarters State) | Types of Food-Service Chains | Estimated Total Food-Service Sales All Units Current Fiscal Year (Millions) | Total Sales Latest Fiscal Year (Millions) | Total Sales Previous Fiscal Year (Millions) | Number Units End of Latest Fiscal Year | Number Units End of Previous Fiscal Year | Estimated Number of New Units Current Fiscal Year | Current Estimated Average Per Unit Annual Sales (000) |
|---|---|---|---|---|---|---|---|---|---|
| 1. | **McDonald's (Ill.)** | F-BU | $7,800 | $7,100 | $6,200 | 6,739 | 6,263 | 500 | $1,200 |
| 2. | **Burger King (Fla.)** | F-BU | 2,600 | 2,350 | 2,100 | 3,255 | 3,022 | 245 | 800 |
| 3. | **KFC (Ky.)** | F-CH, SE, M | 2,600 | 2,400 | 2,100 | 6,304 | 6,242 | 95 | 425 |
| 4. | **Marriott (D.C.)† (includes all Big Boys)** | CF, CS, DI F-BU, HO | 2,000 | 1,600 | 1,050 | 1,800 | 1,580 | 125 | 600 |
| 5. | **ARA (Pa.)** | CF, DI | 1,800 | 1,600 | 1,485 | 2,000 | 1,750 | 95 | 850 |
| 6. | **Wendy's (Ohio)** | F-BU | 1,700 | 1,400 | 1,200 | 2,229 | 2,034 | 170 | 720 |
| 7. | **Holiday Inns (Tenn.) (includes all food service at units)** | HO, DI, CS | 1,620 | 1,500 | 1,400 | 1,800 | 1,755 | 50 | 840 |
| 8. | **Hardee's (N.C.)** (includes Burger Chef)** | F-BU | 1,400 | 1,140 | 922 | 1,465 | 1,304 | 700 | 733 |
| 9. | **Pizza Hut (Kan.)** | F-PI | 1,300 | 1,150 | 1,025 | 4,300 | 4,250 | 200 | 315 |
| 10. | **IDQ (Minn.)** | F-I, BU | 1,238 | 1,125 | 1,019 | 4,805 | 4,833 | 5 | 275 |
| 11. | **Denny's (Calif.)** | CS; DO | 1,050 | 849 | 725 | 1,680 | 1,575 | 70 | 735 |
| 12. | **Saga (Calif.)** | CF, DI, ST, PI | 990 | 899 | 819 | 835 | 824 | 15 | 700 |
| 13. | **Sheraton (Mass.)** | HO | 940 | 840 | 735 | 1,138 | 1,095 | 42 | 725 |
| 14. | **Canteen (Ill.)** | CF | 800 | 790 | 756 | 850 | 820 | 45 | 685 |
| 15. | **Red Lobster (Fla.)** | SE | 750 | 625 | 505 | 330 | 291 | 35 | 2,100 |
| 16. | **Shoney's (Tenn.)** (includes Famous Recipe)** | CS, F-SE, CH, DI | 700 | 572 | 515 | 728 | 683 | 100 | 1,100 |
| 17. | **Howard Johnson (Mass.)** | HO, CF, CS, DI | 690 | 640 | 600 | 1,140 | 1,100 | 35 | 590 |
| 18. | **Arby's (Ga.)** | F-R | 591 | 527 | 477 | 1,144 | 1,053 | 105 | 472 |
| 19. | **Taco Bell (Calif.)** | F-T | 590 | 535 | 460 | 1,350 | 1,270 | 75 | 440 |
| 20. | **Church's (Tex.)** | F-CH, BU | 560 | 512 | 466 | 1,065 | 1,000 | 70 | 500 |
| 21. | **Hyatt (Ill.)** | HO | 550 | 410 | 350 | 62 | 56 | 8 | 5,500 |
| 22. | **Jerrico (Ky.)** | F-SE, CS | 545 | 508 | 465 | 1,150 | 1,100 | 60 | 470 |
| 23. | **Hilton Hotels (Calif.)** | HO | 535 | 525 | 512 | 221 | 209 | 17 | 800 |
| 24. | **Servomation (Conn.)** | CF | 533 | 508 | 494 | 1,025 | 1,010 | 26 | 535 |
| 25. | **Ponderosa (Ohio)** | FS, M | 532 | 510 | 487 | 698 | 681 | 40 | 715 |
| 26. | **Jack-in-the-Box (Calif.)** | F-BU | 495 | 455 | 415 | 795 | 803 | 5 | 618 |
| 27. | **Western Sizzlin (Ga.)** | FS | 450 | 410 | 375 | 590 | 550 | 35 | 740 |
| 28. | **Collins (Calif.)*** | FS, F-CH | 440 | 410 | 386 | 740 | 709 | 24 | 725 |
| 29. | **Ramada Inns (Ariz.)** | HO | 430 | 400 | 368 | 675 | 635 | 43 | 800 |
| 30. | **Dunkin' Donuts (Mass.)** | DO | 425 | 370 | 312 | 1,100 | 1,035 | 75 | 385 |
| 31. | **Chart House (La.)*** | F-BU, SI, SE, DI, M | 405 | 354 | 312 | 498 | 477 | 17 | 1,400 |
| 32. | **Bonanza (Tex.)** | FS | 400 | 376 | 350 | 695 | 680 | 30 | 625 |
| 33. | **Host Int'l (Calif.)** | CF, CS, DI | 400 | 375 | 357 | 205 | 185 | 30 | 2,000 |
| 34. | **Interstate United (Ill.)** | CF | 395 | 374 | 361 | 1,100 | 1,060 | 40 | 365 |
| 35. | **Morrison (Ala.)** | CA, CF | 380 | 352 | 321 | 477 | 419 | 40 | 1,600 |
| 36. | **Steak & Ale, Bennigan's (Tex.)** | DI | 375 | 295 | 240 | 300 | 262 | 45 | 1,400 |
| 37. | **Friendly (Mass.)** | CS | 350 | 320 | 274 | 626 | 630 | 9 | 430 |
| 38. | **K mart (Mich.)** | ISF, F | 345 | 325 | 300 | 1,860 | 1,752 | 110 | 200 |
| 39. | **Far West (Calif.)** | DI, ST, CS | 330 | 225 | 200 | 329 | 220 | 22 | 900 |
| 40. | **Hilton Int'l (N.Y.)** | HO | 325 | 303 | 277 | 85 | 79 | 4 | 2,850 |
| 41. | **Dobbs Houses (Tenn.)** | CF, CS | 310 | 302 | 287 | 550 | 540 | 25 | 600 |
| 42. | **Godfather's (Neb.)** | F-PI | 310 | 236 | 133 | 636 | 394 | 190 | 600 |
| 43. | **IHOP (Calif.)** | CS | 310 | 300 | 272 | 570 | 560 | 0 | 525 |
| 44. | **Spartan Food (S.C.)*** | F-BU, FS | 296 | 243 | 196 | 341 | 303 | 45 | 756 |
| 45. | **Domino's (Mich.)** | F-PI | 286 | 179 | 110 | 582 | 399 | 200 | 338 |
| 46. | **Sonic (Okla.)** | F-BU | 285 | 284 | 279 | 1,046 | 1,123 | 0 | 258 |
| 47. | **Perkins (Minn.)** | CS | 280 | 265 | 241 | 343 | 375 | 15 | 772 |
| 48. | **Mr. Donut (Minn.)** | DO | 275 | 230 | 195 | 925 | 875 | 45 | 300 |
| 49. | **Greyhound Food (Ariz.)*** | CF, CS, F-BU | 265 | 255 | 240 | 420 | 400 | 25 | 630 |
| 50. | **Sambo's (Calif.)** | CS | 265 | 420 | 500 | 668 | 1,118 | 0 | 400 |
| 51. | **Stouffer's (Ohio)** | DI, CS, HO, CF | 265 | 245 | 220 | 124 | 110 | 15 | 1,975 |
| 52. | **Baskin-Robbins (Calif.)** | F-I | 250 | 240 | 225 | 2,625 | 2,621 | 5 | 105 |

# NRN FOCUS

## *Top 100 Chains by Sales Volume*

| Sales Rank | Company (Headquarters State) | Types of Food-Service Chains | Estimated Total Food-Service Sales All Units Current Fiscal Year (Millions) | Total Sales Latest Fiscal Year (Millions) | Total Sales Previous Fiscal Year (Millions) | Number Units End of Latest Fiscal Year | Number Units End of Previous Fiscal Year | Estimated Number of New Units Current Fiscal Year | Current Estimated Average Per Unit Annual Sales (000) |
|---|---|---|---|---|---|---|---|---|---|
| 53. | **Ogden Foods (Mass.)** | CF, F | 250 | 216 | 175 | 1,500 | 1,420 | 65 | 125 |
| 54. | **Sky Chefs (Tex.)** | CF | 250 | 229 | 201 | 53 | 50 | 2 | 2,100 |
| 55. | **United Airlines (Ill.)** | AIR | 245 | 230 | 220 | 24 | 21 | 2 | 10,000 |
| 56. | **Carl Karcher's (Calif.)** | F-BU | 240 | 201 | 172 | 309 | 285 | 36 | 735 |
| 57. | **Pizza Inn (Tex.)** | F-PI | 240 | 223 | 201 | 731 | 747 | 40 | 345 |
| 58. | **Woolworth (N.Y.)** | ISF | 240 | 235 | 218 | 1,460 | 1,425 | 30 | 170 |
| 59. | **Westin (Wash.)** | HO | 225 | 200 | 185 | 46 | 45 | 1 | 4,600 |
| 60. | **Service Systems** (includes Stouffer's Mgt.)** | CF | 221 | 185 | 165 | 1,156 | 1,109 | 145 | 145 |
| 61. | **Macke (Md.)** | CF | 210 | 201 | 208 | 2,815 | 2,790 | 32 | 110 |
| 62. | **A&W (Calif.)** | F-BU | 200 | 215 | 225 | 1,100 | 1,200 | 0 | 200 |
| 63. | **Bob's Big Boy (Calif.)† (company-owned only)** | CS | 200 | 170 | 150 | 195 | 180 | 18 | 1,040 |
| 64. | **Popeyes (La.)** | F-CH | 185 | 142 | 113 | 275 | 257 | 80 | 625 |
| 65. | **White Castle (Ohio)** | F-BU | 184 | 172 | 156 | 162 | 159 | 4 | 1,100 |
| 66. | **Disney (Calif.)** | A | 180 | 160 | 147 | 96 | 91 | 0 | 1,700 |
| 67. | **Seiler (Mass.)** | CF | 175 | 155 | 140 | 700 | 680 | 26 | 235 |
| 68. | **Frisch's (Ohio)†** | CS, DI | 170 | 160 | 152 | 234 | 233 | 6 | 710 |
| 69. | **Mr. Steak (Colo.)** | FS | 170 | 163 | 155 | 275 | 268 | 5 | 625 |
| 70. | **Victoria Station (Calif.)** | DI | 170 | 160 | 141 | 100 | 100 | 2 | 1,500 |
| 71. | **York (Ohio)** | FS | 168 | 145 | 120 | 160 | 135 | 22 | 900 |
| 72. | **Country Kitchen (Minn.)** | CS | 165 | 185 | 177 | 285 | 320 | 0 | 550 |
| 73. | **Custom Mgt. (Pa.)** | CF | 165 | 130 | 100 | 345 | 300 | 38 | 350 |
| 74. | **Sportservice (N.Y.)** | CF | 165 | 150 | 135 | 2,100 | 2,020 | 75 | 85 |
| 75. | **Shakey's (Tex.)** | F-PI | 160 | 157 | 152 | 460 | 452 | 9 | 350 |
| 76. | **Carvel (N.Y.)** | F-I | 151 | 145 | 135 | 800 | 785 | 23 | 200 |
| 77. | **Krystal (Tenn.)** | F-BU | 150 | 139 | 120 | 210 | 204 | 8 | 700 |
| 78. | **Wyatt (Tex.)** | CA | 150 | 137 | 118 | 104 | 102 | 5 | 1,430 |
| 79. | **Tastee Freez (Mo.)** | F-I, BU | 149 | 134 | 117 | 108 | 102 | 7 | 1,400 |
| 80. | **Mannings (Calif.)** | CA | 148 | 144 | 137 | 332 | 325 | 8 | 440 |
| 81. | **Stuckey's (Ga.)** | F, CA | 147 | 140 | 132 | 298 | 287 | 9 | 475 |
| 82. | **Pizza Time (Calif.)** | F-PI | 145 | 55 | 15 | 88 | 25 | 63 | 1,800 |
| 83. | **Western Steer (N.C.)** | FS | 145 | 136 | 128 | 167 | 142 | 25 | 846 |
| 84. | **Furr's (Tex.)** | CA | 144 | 120 | 112 | 86 | 79 | 25 | 1,500 |
| 85. | **Piccadilly (La.)** | CA | 142 | 127 | 115 | 81 | 79 | 8 | 1,670 |
| 86. | **Whataburger (Tex.)** | F-BU | 142 | 129 | 118 | 300 | 280 | 18 | 465 |
| 87. | **Luby's (Tex.)** | CA | 140 | 119 | 99 | 59 | 56 | 5 | 2,250 |
| 88. | **Marie Callender (Calif.)** | CS, DI | 140 | 125 | 110 | 91 | 89 | 3 | 1,450 |
| 89. | **Rax (Ohio)** | F-R | 140 | 120 | 96 | 210 | 196 | 40 | 600 |
| 90. | **Szabo (Ill.)** | CF | 140 | 133 | 126 | 470 | 462 | 10 | 320 |
| 91. | **Village Inn (Colo.)** | CS | 140 | 117 | 103 | 170 | 163 | 18 | 780 |
| 92. | **Gilbert/Robinson (Mo.)** | DI | 135 | 112 | 86 | 63 | 57 | 5 | 2,100 |
| 93. | **TGI Friday's (Tex.)** | DI | 135 | 100 | 80 | 46 | 40 | 7 | 2,500 |
| 94. | **Chi-Chi's (Okla.)** | M | 132 | 95 | 40 | 54 | 24 | 11 | 2,000 |
| 95. | **Waffle Houses (Ga.)** | CS | 131 | 114 | 102 | 414 | 401 | 13 | 311 |
| 96. | **Golden Corral (N.C.)** | FS | 131 | 108 | 81 | 188 | 151 | 45 | 1,000 |
| 97. | **Sirloin Stockade (Okla.)** | FS | 130 | 115 | 102 | 215 | 208 | 0 | 550 |
| 98. | **Walgreen (Ill.)** | ISF, CS | 130 | 107 | 90 | 243 | 220 | 15 | 520 |
| 99. | **Wienerschnitzel (Calif.)** | F-HD | 130 | 115 | 105 | 350 | 329 | 20 | 365 |
| 100. | **Sears (Ill.)** | ISF | 127 | 110 | 103 | 465 | 445 | 18 | 245 |
|  | **Industry Totals** |  | **$50.7 Billion +12.9%** | **$44.9 Billion +13.1%** | **$39.7 Billion** | **85,550 +4.1%** | **82,220** | **5,010 +5.9%** |  |

Source: *Nation's Restaurant News* Research

**KEY TO THIRD COLUMN**

| | | | |
|---|---|---|---|
| AIR | Airline Feeder | HO | Hotels |
| A | Amusement Feeder | I | Ice Cream |
| BU | Burgers | ISF | In-Store Feeders |
| CA | Cafeterias | M | Mexican |
| CF | Contract Feeders | PA | Pancakes |
| CH | Chicken | PI | Pizza |
| CS | Coffee Shops | R | Roast Beef |
| DI | Dinnerhouses | SE | Seafood |
| DO | Doughnuts | SM | Smorgasbord |
| F | Fast Food | ST | Steakhouses |
| FS | Family Steakhouses | T | Tacos |
| HD | Hotdogs | | |

***Franchisees which also have their own chains are included in the top 100 volume chart if they qualify. These franchisees—Collins Foods (KFC), Chart House (Burger King), Greyhound (Burger King) and Spartan Foods (Hardee's)—have their total sales and total number of units listed, but their duplicate franchise volumes and units have been factored out of the top 100 totals.**

**†The some $1 billion annual sales of the 21 Big Boy groups are included in the totals of Marriott, which owns the master franchisor, Bob's Big Boys. Only Bob's company units are included under Bob's Big Boys. Meanwhile, Frisch's Big Boy units have been factored out of the grand totals as a duplication of the Marriott totals.**

****Total volumes and units are restated for each year to reflect an acquisition.**

NRN FOCUS

# BUDGET STEAKHOUSE SEGMENT

## Decline in the older cities, prosperity in the Sunbelt

**By Donald Frazier**

**Geography—not concept—emerged during the last year as the crucial factor separating the winners from the strugglers in the budget steakhouse segment.**

**Large chains such as Ponderosa, Sizzler and Bonanza continued to depart from the original budget steakhouse formula in an effort to broaden their appeal and fend off the recession that has hit the country's industrial economy with full force.**

**Meanwhile, several small companies such as Golden Corral and Western Steer are prospering with the same old-fashioned concept—meat and potatoes, and few frills—the leaders are abandoning.**

**What gives? Location.**

**The leaders' units tend to be concentrated in the residential areas of older cities. Their customers have historically been the blue-collar workers for heavy industries.**

**With mass layoffs, plant closings and drastic cutbacks in Government assistance affecting these areas, it's no wonder that the leaders are rolling out a plethora of diversification schemes and broadening their many lines to include poultry and fish.**

**But the smaller companies, which tend to be newer, leaner and privately held, don't have to worry about any of that. They're in the Sunbelt.**

**Operators such as Western Sizzlin' and Western Steer have found the region's high disposable income and relative economic health—coupled with strongly traditional dining preferences—have protected their restaurants from the ills afflicting their Northern counterparts.**

**Golden Corral in particular has exploited cunning site selection. The 190-unit North Carolina-based chain places its units in rural towns in the Southeast, where they draw a cross section of the populace, not just one segment of it.**

**This strategy—plus a unique management incentive program—has enabled Golden Corral to move into new areas of the West with the acquisition of the Oklahoma-based Sirloin Stockade chain of budget steakhouses and the construction of new units in places like Utah, setting the stage for it to become a national chain in a few years.**

**Thus, the frantic repositioning drive among the leaders. Bonanza's new People's spinoff company. Ponderosa's new Mexican dinnerhouse division. And, for both, a pullback from exclusively blue-collar areas with their unemployed customers and their undercapitalized franchisees, and a shift of resources to markets with a more diverse demographic mix.**

### PONDEROSA

## New strategy targets more diversification

DAYTON, Ohio—The leader of the budget steakhouse segment is joining the increasingly crowded Mexican dinnerhouse market with the conversion of three units to the newly acquired Casa Lupita concept.

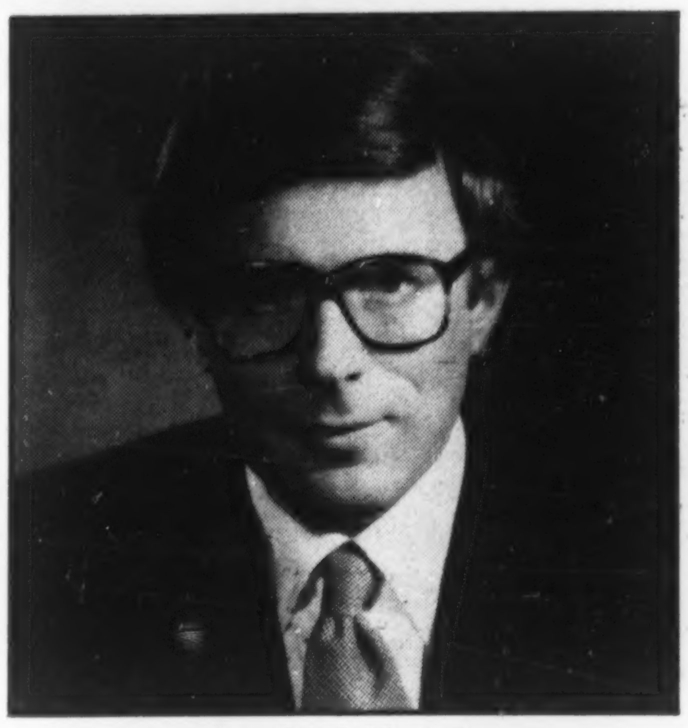
The three restaurants, including two near Ponderosa's home office here and a third in Fort Myers, Fla., are the pilot units of a broad-based diversification scheme which occupies a central place in the company's long-term strategy.

The conversions will reportedly cost the company about $500,000 per unit. The renovated restaurants will reflect a Mexican dinnerhouse concept bought from a three-unit Seattle company earlier this year.

The development of the trendy, somewhat-upscale, Casa Lupita chain signals management's hope to soften the impact of economic downturns on the company. Events such as the current recession fall with disproportionate severity upon Midwestern blue-collar workers, and thus on the company's 691-unit steakhouse division.

But the future of the new concept hinges upon the fortunes of these steakhouses. Before Ponderosa can go ahead with its plans to convert as many as 50 of its less-profitable steakhouses to the new concept, its steakhouses must churn out dollars.

They showed signs of doing so in fiscal 1982. After a sharp drop in profitability in 1981, the company recovered to post an $8.4 million profit on a 6% rise in sales to $516.6 million compared with the previous year.



**Gerald Office Jr.**
*chairman and ceo*

The company achieved these results despite the heavy use of coupon promotions, a low-priced 'Value Meal' program in many of its most depressed markets, a marked reluctance to raise prices and, most importantly, one of the harshest Midwestern winters in memory.

The year also saw the emergence of a downscaling price strategy in the company's heartland markets. In these areas Ponderosa sought during 1982 to decrease its check average to about $3.40.

This measure was aimed at bringing the steakhouses into price competition with the burger chains, whose check average continued to rise during the year.

*(Continued on page 139)*

### COLLINS FOODS INC.

## Upgrading of Sizzler units produces positive results

LOS ANGELES—Collins Foods is entering fiscal 1983 confident that changes in its budget steakhouse and fast-food divisions are on point.

The numbers justify corporate enthusiasm: customer counts in fiscal 1982 (ended April 30) were the highest in years, check averages were up and additional gains in both categories were recorded in May and June, said Richard Bermingham, president and chief operating officer.

Average unit volumes at company-owned Sizzler restaurants are a bit over $800,000, on the high end for budget steakhouses, and check averages are close to $5.50 per person.

Collins Foods owns and operates 133 Sizzlers, franchises 316 and is one of the largest Kentucky Fried Chicken franchisees, with 236 units. The highest concentration of Collins Sizzlers and KFC units is in California.

No significant unit expansion is planned for 1983 in any of the divisions. Collins will open about six KFC units and two or three Sizzlers. Franchisees will open about 10 Sizzler units. A five-year unit enhancement program, costing between $13 million and $15 million per year, is continuing.

With net income off in 1981, Collins Foods started closing some subpar Sizzler restaurants and, in Bermingham's words, started "aggressively looking for other concepts" in anticipation of a dropoff in popularity in the budget steakhouse segment.

"Problems we expected didn't come up, many of our franchisees are healthier, our company stores are healthier" so no changes in direction were made, Bermingham explained. "We're still looking; we have a couple of pilot programs on the drawing board but it's too early to tell."

Store sales, customer counts and check averages were boosted in 1982 when Sizzler repositioned itself for white-collar business rather than its traditional blue-collar market.

Units were remodeled, higher quality meat was used, customer service was improved, and fresh salad and fruit bars were added, Bermingham said. In addition, there were several successful promotions, including all-you-can-eat nights featuring ribs or steak and shrimp at special prices.

*(Continued on page 139)*

### *COLLINS FOODS INC.*

**Fiscal Year Ended April 30**

| | 1980 | 1981 | 1982 | Current Fiscal Year* |
|---|---|---|---|---|
| **Systemwide Sales (Millions)** | $340.0 | $386.1 | $426.0 | $481.0 |
| **Revenues (Millions)** | $236.5 | $265.2 | $299.4 | $336.0 |
| **Net Income (Millions)** | $8.0 | $7.4 | $9.6 | |
| **Average Unit Sales** KFC | $352,000 | $391,000 | $436,000 | $484,000 |
| Sizzler (company) | $690,000 | $708,000 | $800,000 + | $875,000 |
| Sizzler (franchise) | $570,000 | $602,400 | $690,000 + | $740,000 |
| **Number of Units** KFC | 230 | 231 | 236 | 242 |
| Sizzler (company) | 128 | 137 | 133 | 135 |
| Sizzler (franchise) | 324 | 341 | 316 | 326 |
| **Total** | 682 | 709 | 685 | 703 |
| **Per Person Check Averages** Sizzler (company) | | $4.95 | $5.44 | |

Source: NRN research

*Projected

+ Estimates

**Collins did not raise Sizzler menu prices systemwide during fiscal 1982; there were some increases in certain markets.**

**Collins Foods is a major franchisee of Kentucky Fried Chicken. The company operates and licenses its Sizzler steakhouses. Collins Foods also owns and operates a food-service distribution division.**

NRN FOCUS

# BUDGET STEAK SEGMENT

## PONDEROSA

Fiscal Year Ended Feb. 25, 1982

| | 1980 | 1981 | 1982 | Current Fiscal Year* |
|---|---|---|---|---|
| **Systemwide Sales (Millions)** | $481.5 | $487.1 | $516.6 | $550.0 |
| **Revenues (Where Different From Sales) (Millions)** | $328.4 | $334.0 | $360.4 | $385.0 |
| **Net Profit (Millions)** | $13.4 | $2.5 | $8.4 | |
| **Average Store Sales** | $707,000 | $698,000 | $747,000 | $795,000 |
| **Average Check Per Person** | $3.95 | $3.85 | $3.45 | $3.50 |
| **Number of Units** | 681 | 698 | 691 | 690 |

Source: NRN research

*Projected

**Ponderosa reportedly raised prices by about 1.5% during fiscal 1982.**

**The company recently revealed first half results for fiscal 1983: sales up 5.4% to $88.2 million and net profit down 10% to $2.1 million.**

COLLINS

## Upgrading units, training receive company's attention

*(Continued from page 132)*

Hours were expanded at some units and breakfast is in test in several stores. There was also more emphasis placed on training.

Salad bars, which are in many units in the West, "have done a helluva lot for employee morale and for the bottom line," Bermingham said.

Collins' KFC units, which are enjoying volume well in excess of the average franchised KFC sales ($436,000 vs. $350,000) will participate in testing of new KFC menu items beginning this month. Those items include biscuits, spicy chicken, collard greens and spicy rice.

The size of Sizzler has shrunk by about 25 units since the end of fiscal 1981, although sales and net income are up. In fiscal 1982, Collins Foods reported a 31.5% gain in net income to $9.6 million on revenue of $299.4 million. Systemwide sales were $426 million, up 12.7% from the year earlier.

James A. Collins is chairman and chief executive of Collins Foods Inc. Bermingham is president and chief operating officer. Thomas Gregory is corporate vice president and president of Sizzler and Timothy Brandon is corporate vice president and general manager of the food-service division.

GOLDEN CORRAL

## Success breeds further expansion for North Carolina-based firm

RALEIGH, N.C.—Having bitten off a large hunk of new geography with its recent purchase of the 193-unit Sirloin Stockade, Golden Corral officers expect to spend a lot of time digesting that sizable morsel.

Golden Corral executives have hinted the former Lucky Stores property was undervalued and characterized it as a turnaround opportunity.

To head up the effort, Golden Corral named its executive vice president and a co-founder, William F. Carl, chief executive officer of Sirloin Stockade.

Back at the ranch, the company promoted Theodore M. Fowler Jr. from vice president and general manager of restaurant operations to Golden Corral president.

During the past year the holding company that owns Golden Corral also purchased six North Carolina units of the OH!Brian's tablecloth barbecue restaurant chain.

Company officers expect the number of Golden Corrals to increase this year to 244 from 184 at the end of last year.

The chain's success is credited partly to its concept of partner-managers in stores. A manager invests $20,000 in the system (with financial help from the company), and then earns a basic salary from Golden Corral plus 20% of the profits from his unit. This has resulted in a low turnover rate of managers (about 20%), according to the company. Golden Corral says it has no plans to introduce the concept in its Sirloin Stockade units.

Average annual unit sales were $650,000 last year, up from $537,000 the previous year.

Wayman O. Leftwich, senior vice president, says the company expects to continue its growth in markets it currently operates in. Most units are concentrated in the Southeast. The Sirloin Stockade chain is based in Oklahoma and most units are in the Southwest.

PONDEROSA

## New strategy is designed to attract more customers

*(Continued from page 132)*

The company hopes the pricing strategy could reclaim many of the customers it and other budget steakhouses lost when the price of utility-grade meat—once the mainstay of the Ponderosa menu—began to rise several years ago.

To bring this about, management has moved ahead with the physical renovation of the 230-plus company-owned stores in the system, even while reducing capital expenditures from a planned $52 million to a much leaner $20 million.

Ponderosa's development department perfected a new steakhouse design during the year. The "Concept 80" building involves a much plusher ambiance than that of the older rough-hewn building, box-like on the outside and no-frills cafeteria-style on the inside.

This move was meshed with management's growing sentiment during the last year that Ponderosa should gradually upscale its image and its product line to escape the 'bargain-basement' market position that has caused hard times for many budget steakhouse companies in recent years.

Part of this campaign is menu development. Ponderosa has continued to roll out nonmeat entrees such as fish, and has upgraded the quality of its line of red meat items. It still serves highly tenderized cheap grades of beef, but has augmented these items with T-bone steaks and a line of prime rib platters.

Ponderosa opened a new meat cutting and packing facility during the year in a move with two objectives: one, the improvement of meat quality and portion control; two, the development of a profitable side business in meat distribution to help fund the upgrading of the steakhouse system.

But the new Mexican dinnerhouse division, under the leadership of former Rax Systems head Edwin Ourant, has captured much of the company's impetus for development.

With a high liquor sales ratio, a low food cost, a high tableturn, a popular new image and a proven appeal for the blue collar market, the Mexican dinnerhouse segment has entered the Midwest with striking intensity, involving companies such as Chi-Chi's, Garcia's of Scottsdale, Cisco's, Casa Gallardo and El Torito and many others.

The already proven Casa Lupita service system and menu has assuaged many doubts at the Ponderosa home office about the diversification scheme. But many questions remain as the concept comes into its own in the next year.

The major one, according to one company source, is this: with all of the virtually identical Mexican-style concepts flooding the market, what will the latecomer do to make itself different and survive the widely feared shakeout?

BONANZA

## Reduction of debt burden affects chain's profits

DALLAS—In a move meant to spruce up its image in the financial markets, 630-unit budget steakhouse chain Bonanza recently paid off millions of dollars in long-term debt.

This action reduced Bonanza's debt burden from more than $10 million to $1.8 million over the last year, according to John Boylan, the new president of the entirely franchised system.

But it also helped cause what he characterized as "a very difficult year," in which Bonanza suffered a loss of about $15 million and more than 8% of its restaurants.

About 85% of fiscal 1981's loss, Boylan said, came from write-offs associated with closing weaker restaurants in the system. Although the chain added 20 new units during the year it closed 78 others.

Its newly strengthened financial position should help Bonanza finance the next stages of its Freshtasticks program. The scheme, an all-you-can-eat food bar involving a design package and a general upgrading of menu quality, is now installed in about 350 Bonanza restaurants. Boylan hopes the program will be in as many as 400 stores by the end of September.

The Freshtasticks concept, Boylan said, has hiked customer counts by about 15% and sales by about 26% where it has been introduced. Much of this gain occurred during the lunch hours where the expanded menu apparently attracts women and lower-echelon white-collar workers, two groups who have played a small part in Bonanza's plan in the past.

But the company may face difficulty in further implementing the concept. Many of the unconverted stores in the system are in areas such as Ohio, where franchisees and customers are both reeling from the recession. Others are in healthy Sunbelt markets such as Denver, where the original concept is still viable.

Much of the impetus toward innovation at Bonanza has been shifted to its new People's casual-theme concept (see related story). The People's division during the last year became an independent public company retaining close ties to its parent. Boylan became Bonanza president when previous president Don Thomson left to take the reins at People's.

The results of last year's plan to link new store royalties to the prime

*(Continued on page 142)*

# NRN FOCUS

## CONTRACT FEEDERS

### Recession forces companies to diversify into other areas

By Roman Czajkowsky

**Food-service contract management companies continue to diversify their portfolio of accounts as a hedge against cyclical pressures on industrial manufacturing, the traditional mainstay of most contract feeders.**

**The recession has been felt in varying degrees throughout this segment of the food-service industry, forcing renegotiations of marginal accounts and, in some cases, employee layoffs.**

**In general, contract feeders are now looking to expand the number of their white collar institutional and leisure markets accounts.**

**That strategy is apparent at such companies as Canteen Corp., whose president, James T. McGuire, says the intent is to go "from an 'at work market' to the 'where the people are' market."**

**ARA, the nation's largest operator of contract food services, is looking to add institutional and in-flight accounts.**

**Ogden Food Service says it will concentrate on adding recreational and travel food-service contracts.**

**Greyhound's food-service group is gearing its efforts toward institutional contracts and is likely to expand its stable of Burger King restaurants.**

**Restaurants are also a major source of revenue at such companies as Saga, which now operates a total of 300 Straw Hat Pizza, Stuart Anderson's Black Angus and Velvet Turtle outlets.**

**One new wrinkle is being added by The Macke Company. According to a Macke official, the company is becoming "more heavily involved" in electronic games, which he termed "a form of vending."**

## GREYHOUND FOOD MANAGEMENT

### *Efforts focused on gaining new 'white-collar' accounts*

PHOENIX—Greyhound Food Management is focusing its energies on a growing stable of institutional and "white collar" contract food-service accounts.

Like the rest of the contract food-service industry, GFM wants to be less dependent on such recession-prone businesses as the automotive industry.

Another priority for the future is expanding its group of franchised Burger King restaurants, now numbering 26, according to a GFM spokesman.

Burger Kings are operated by GFM's Post House division, which has virtually completed the conversion of the old Post House bus terminal restaurants into BK's and theme restaurants. As a result, future Burger Kings are likely to be free-standing units.

Truck stops will be other likely new sources of revenue, according to the spokesman. GFM currently operates on a lease-basis four such facilities in California, Texas, Kansas and Missouri, respectively.

The food-service group, a subsidiary of The Greyhound Corp., saw its net income increase 50%, to $6.5 million, in fiscal 1981. Revenue for the year were $255 million, up from $240 million the year before.

GFM also provides food service to schools and universities, convention centers and tourist facilities. This year, for example, GFM has been refurbishing facilities at the Glacier National Park in Montana, including seven hotels and motels it acquired there last year.

Early this year, Joseph K. Fassler was named GFM president and chief operating officer. He replaced Robert Nagle, who left for a job as area president of ARA Services' institutional sector.

John Teets is GFM ceo.

## MARRIOTT CONTRACT FOOD SERVICES

### *Marketing strategy key to ending airport catering slump*

WASHINGTON—Marriott's Contract Food Services Group is stepping up its marketing efforts to attract new clients as it battles increased competition abroad and the effects of the recession on its highly vulnerable domestic and foreign inflight catering and airport terminal businesses.

Though sales rose in the first quarter ended March 26 to $146.8 million from $128.5 million in the 1981 first quarter, operating income was off slightly to $10.3 million.

Flatness was evident throughout 1981 and the slight increase in operating income to $45.5 million for the year was attributed primarily to additional units and price increases. The outlook for the rest of this year is clouded by the depressed airline industry whose fortunes have a direct impact on some of the Contract Food Services Group's businesses.

To counter the effects of inflation, Marriott has instituted a systemwide productivity improvement program; new training programs and a new computer system are designed to provide better controls on costs.

A specialized consultation service for international clients is being set up overseas and Marriott is going after new accounts, especially in the United Kingdom, Argentina and Brazil where the competitive pressures have increased in the last two years.

Contract food services have been hurt, too, by the devaluation of certain foreign currencies against a stronger United States dollar.

Despite the problems, Marriott executives are optimistic about the Contract Food Services Group. They expect a recovery in the airline industry and know the company can trade on its good reputation when seeking new contracts and renewing old ones.

The Contract Food Services Group operates more than 350 units in 19 countries. It provides in-flight feeding to more than 100 airlines from 70 flight kitchens in the United States, the Caribbean, Mexico, South America, Europe, and the Middle East.

Its food-service management division provides food and beverage service to 115 businesses and industries, 94 health care facilities and 22 colleges in public and private cafeterias

The Group also operates 14 restaurants on the New Jersey and Delaware Turnpikes, 27 airport terminal concessions such as restaurants, snack bars, cafeterias, gift shops and lounges.

The airline catering end of its business has been hurt by higher operating costs, a dropoff in airline passengers and the reduction in food service on some short-distance flights, according to the company.

Profits from airport terminal businesses and food-service management contracts have risen in recent months, mostly due to new accounts.

Marriott acquired Host International on March 3 for $148 million and will operate it as a separate subsidiary.

Host operates airport restaurants and shops and has seven airline catering kitchens. The company also operates hotels near airports in Houston; Tampa, Fla.; Sacramento, Calif., and Detroit, and owns 52 specialty restaurants in California and on the East Coast.

## SKY CHEFS

### *Airline feeder shifts course, opens roadside restaurants*

ARLINGTON, Tex.—Sky Chefs, in its first nonairline venture, has been opening restaurants along the New York State Thruway. Ten are now in operation.

Nicholas Magnis, financial vice president, said it was "still too early to tell what the long-range planning will be in that area." He said the company was expecting its biggest revenues from the venture this summer, because of increased travel.

The units, which are along the southern part of the highway, are called The Chefs, and are similar to the Howard Johnson's concept.

About 75 per cent of Sky Chefs' business is airport concessions and in-flight catering. The company is wholly owned by American Airlines.

Magnis said Federal deregulation of the airline industry has had a "slightly beneficial" effect on Sky Chefs' business because of "new customers acquired." Deregulation has meant airlines can fly to locations they were not permitted to fly to before.

Sky Chefs operates 26 catering kitchens in airlines and 18 airport concessions, in addition to the 10 highway feeders. All its business is obtained through competitive bidding. "We will be vigorously pursuing all concession agreements," Magnis said.

The company is projecting sales in excess of $250 million this fiscal year, and Magnis said, "We're on target." Revenues for fiscal 1981, ended Dec. 31, were $229 million.

## BONANZA

### *Repositioning to hold off regional competition*

*(Continued from page 139)*

**rate have been lackluster, Boylan conceded. Although the scheme reduces royalty fees as the cost of financing rises, expansion of the chain is still considerably inhibited by the recession and its impact on the entrepreneurs who invest in budget steakhouses.**

**Bonanza was also hurt during 1981 and the early part of 1982 by the inroads of regional chains in the Sunbelt. Companies such as Golden Corral, Western Sizzlin' and Sirloin Stockade have captured market share in many former Bonanza markets, sometimes even taking over Bonanza locations.**

**The company's fortunes during the next year, Boylan said, will not depend entirely on the Freshtasticks concept or the reduction of debt. It will depend, he said, on the mettle of the company's surviving franchisees and, most of all, on a drop in interest rates and a general economic recovery in middle America.**

# NRN FOCUS

## *CONTRACT FEEDERS*

### ARA

## *Moving into new markets*

PHILADELPHIA—ARA, the $3 billion contract feeding company, will move aggressively into new markets in its institutional and airline feeding segments and will finish instituting a companywide identification program in the year ahead.

While a spokesman for the company admitted that the airline industry is "flat," ARA's capacity as an airline feeder will increase. Two new flight kitchens, in Honolulu and San Francisco, are currently being built and major expansion of flight kitchens in Los Angeles, Miami and New York are currently in progress.

An increase in the number of employee, student and hospital contracts is expected.

"As the belt gets tighter and the tuition crunch gets worse," said the spokesman, "more and more schools are looking at large contract feeders as opposed to self-operation."

In the air and leisure service sector the largest area of growth is expected to be convention contracts. Because these contracts are usually 10 to 15 years long, the company cannot bid on them at anything less than decade-long intervals. Those contracts that will expire, and not newly built convention centers, will be the target of the company's marketing plans. Within the last few years ARA has captured the contracts for McCormick Place in Chicago and the Mascone Center in San Francisco as well as stadiums, race tracks and state and national parks.

In the past few years authority at ARA has been decentralized into a number of divisions. Presidents reporting to chairman William Fishman and president Joseph Neubauer are John Farquharson, Araserve; Claude Feninger, international sector; Lawrence Hill, health services sector; Joseph Kirshbaum, distributive services, and Charles D. Scudder, air, leisure and public sector.

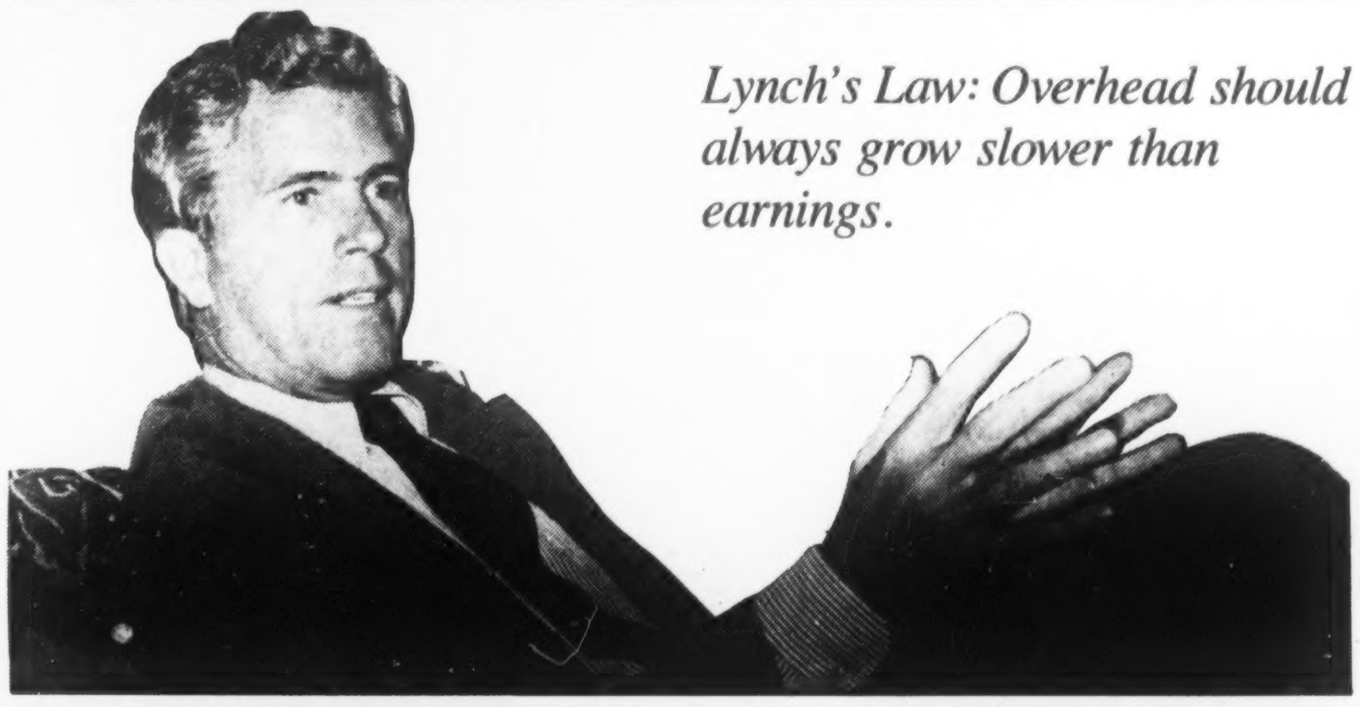
The corporate identification program is meant to raise the visibility of the company in the eyes of the public and create a sense of membership for employees. Cosmetic alterations such as the painting of all company trucks are in process.

In order for ARA to continue growing, said the spokesman, the company felt they should make use of its presence in each market it does business in. Uniforms, signage, corporate advertising, business cards and stationery will all bear the same logo.

**William Fishman**
*ARA chairman*

### SAGA CORP.

## *Restaurant division's profits bolster company's bottom line*



*Lynch's Law: Overhead should always grow slower than earnings.*

MENLO PARK, Calif.—Saga Corp., reporting a 48% net profit growth for the nine months ended March 29, is poised for expansion, bolstered by widening profit margins and strong performance in its restaurant divisions.

Profits through the third quarter of fiscal 1982 were $13.9 million on revenue of $673.9 million, compared to $9.4 million on revenue of $611.2 million in the first nine months of fiscal 1981. Total revenue for fiscal 1981 was $819 million.

With a revamped upper-level management team deployed by chairman and ceo Charles Lynch, Saga has set its sights on new markets for its restaurant businesses, as well as new growth vehicles outside its present food-service and contract feeding lineup.

Saga management attributes its year-to-date profit performance to greater operating efficiencies, tight asset management and moderate cost increases.

For fiscal 1982, average store sales in each of the company's restaurant segments were expected to surpass year-end 1981 figures. Saga operates 206 Straw Hat Pizza outlets, 76 Stuart Anderson's Black Angus steakhouses and 22 Velvet Turtle dinnerhouses.

At an annualized rate, average store sales through the first nine months were projected at $469,000 in the Straw Hats, $2.4 million in the Black Angus operations and $2 million in the Velvet Turtles. These figures will amount to about 30% of Saga's total revenues for the year.

Saga expects the profit yield from restaurants through the end of 1982 to match the levels attained in recent years, accounting for about two-thirds of the company's total profit picture.

Despite inherently lower profit margins, the company continues to place emphasis on contract feeding. In 1981 the company attained a net growth in the number of accounts, including something of a reverse in the formerly declining education division, which rebounded to account for about 42% of the 835 contracts serviced in the year.

Health care accounts experienced a net gain of about 15 contracts in 1981, but the number of business and industry accounts continued a slight erosion on into 1982, according to company sources, with the recession blamed for the decline.

The Seattle-based Stuart Anderson division continues to be the principal focus for expansion among Saga's restaurants. Three Black Angus outlets have opened in 1982, with four more opening up in the new Chicago market by year's end, bringing the total to 80. An additional 15 units are planned for 1983.

Two new Velvet Turtle restaurants opening in 1982 will result in a net increase in the chain of one unit, bringing the total to 23, with no further growth as yet planned for 1983. The conversion of a Velvet Turtle in Houston to the Black Angus concept accounts for the one-unit net growth.

With both the Black Angus and Velvet Turtle restaurants, the company has adopted a policy of restraint on menu price increases in an effort to hold its customer base. Totals, nonetheless, rose 12% in 1981 on the average Black Angus dinner check over the 1980 average, and 7% on Velvet Turtle dinner checks in the same period.

Recession-era pressures have forced the Velvet Turtle operation, with an average dinner check of $15.32, toward the inclusion of lower-priced entrees and early-bird specials on its menu.

The ongoing shake-out in the Straw Hat Pizza division continues in 1982 with closure of some marginal stores and the opening of 10 new franchised units. The net increase in the chain was two, for a total of 206 stores, 100 of them franchised. Emphasis for growth in Straw Hat will continue to be on franchise sales.

Straw Hat unveiled a few new wrinkles in its game plan for 1982, instituting a home-delivery service and rolling out a new taco salad and a brownie dessert.

Strategic planning for future marketing of the Straw Hat concept has management looking at new options in store format and configuration. A smaller, freestanding design may be the end result.

Charles Lynch's elevation to chairman in January left the Saga presidency open. Lynch later formed a three-man office of the president occupied by executive vice presidents James Morrel, chief operating officer; Jeffrey Henley, chief financial officer, and Carl Randall, responsible for administration, human resources, development and acquisitions.

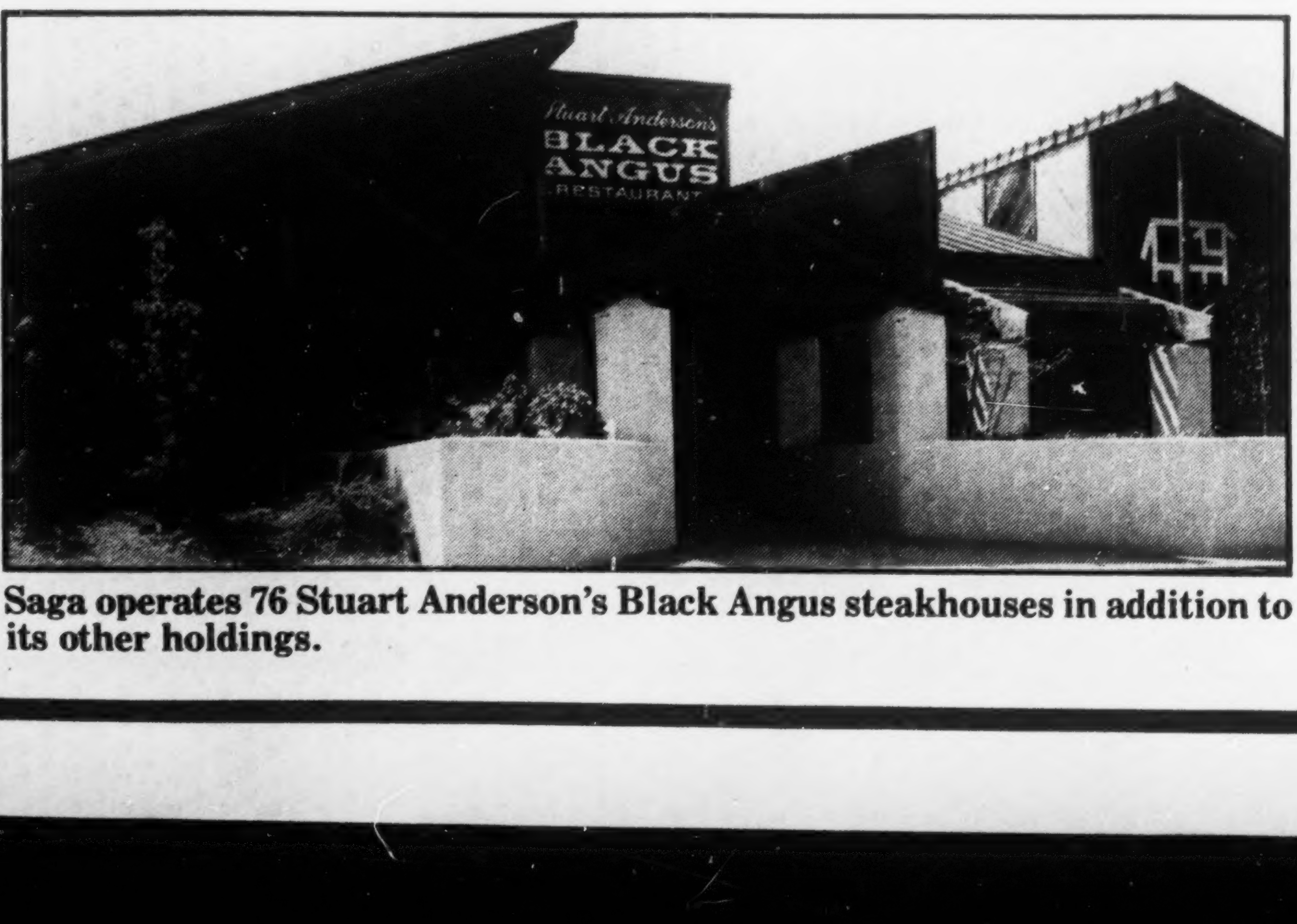
The move effectively submerged the influence of John G. Hollingsworth, former chief marketing and administrative officer who was assigned to "special projects."

Randall, along with the other two members of the tripartite presidency, was charged with maintaining adherence to "Lynch's Law": Overhead should always grow slower than earnings.

Lynch invoked the law in 1979 to start the company's turnaround from a year when overhead had risen "out of control" and net profits slipped to $1.5 million.

"Lynch's Law extends to three basic concepts: cost management, overhead restraint, and at all times providing what the consumer wants," Randall said.

Within that framework, he explained, Saga continues to work toward expanding its market share and scope of activities, both "within and outside of our portfolio."



**Saga operates 76 Stuart Anderson's Black Angus steakhouses in addition to its other holdings.**

# CONTRACT FEEDERS

### CANTEEN

**Fiscal Year Ended Dec. 31**

| | 1979 | 1980 | 1981 | Current Fiscal Year* |
|---|---|---|---|---|
| **Revenues (Millions)** | $689.8 | $756.5 | $790.4 | $800.0 |
| **Operating Profit (Millions)** | $27.0 | $21.2 | $21.9 | $23.0 |
| **Number of Accounts** | 750 | 820 | 850 | 920 |

Source: NRN research

*Projected

DOBBS HOUSES

## New food-service division aims at businesses, schools

MEMPHIS—Dobbs Houses, a major element in the fortunes of parent Carson Pirie Scott, has recently added a new contract food-service division.

The new division, called contract management services, is focusing on providing service for businesses, schools and colleges. The enterprise is based in part on reorganization of the resources of the 36-account Bowie management company, an earlier acquisition. The new division is stressing the expertise on hand through the Dobbs airline terminal business and is giving extra attention to each account's marketing direction. Accounts of $750,000 or more will receive an assistant manager/market director.

Dobbs has also had considerable success adding new airline catering accounts recently, says Paul Martin, vice president of airline services. Seven new accounts have been added within the last six months. Smaller caterers are, in general, losing accounts to larger operations such as Dobbs Houses, Martin says, and the demise of companies such as Braniff mean that other airlines can take over new routes. This, in turn, creates the need for new flight kitchens and services for the new carriers.

Flight kitchens have been built in Hartford and Tampa.

Meanwhile the company has closed 30 Steak 'n Egg units in areas where the neighborhoods were "transitional," said Robert Bryant, Dobbs Houses' president and Carson Pirie Scott vice chairman. The closings are expected to improve the chain's profitability.

N3428
Dobbs House

**Dobbs Houses reports considerable success adding new airline catering accounts.**

CANTEEN CORP.

## Demographic changes spur shift to diverse markets

CHICAGO—Canteen Corp. will seek to diversify into a more balanced mix of accounts to lessen its dependence on blue-collar industrial accounts that are subject to recessionary fluctuations.

Among the prime targets are non-industrial commercial accounts, governmental office complexes, health care facilities, educational institutions and leisure markets. The contract food management company, a wholly owned subsidiary of Trans World Corporation, is also expressly targeting the South for future growth.

"We're going from an 'at work market' to the 'where the people are' market," explained James T. McGuire, a veteran Canteen official who was named its president and chief executive officer late last year. McGuire replaced Howard C. Miller.

Canteen is also changing some of its service concepts within its food and vending division, which accounts for 65% of the company's annual revenues. For example, Canteen is expanding its Gullivers "deli" concept in commercial offices. The primarily self-serve concept, which produces labor savings, should be in place in about 20 locations by year's end, up from the four trial outlets opened last year.

Meanwhile, Canteen continues to expand a "By the ounce" program, which permits customers to serve themselves from a broad menu and pay according to what and how much they select. In line with recent food trends, emphasis is also being placed on merchandising foods' perceived nutritional values, according to McGuire.

To improve its bottom line performance, Canteen has trimmed personnel, and periodically renegotiates unfavorable contracts, McGuire added.

> *'We're going from an at work market to the where the people are market.'*
>
> **—James T. McGuire, president, ceo, Canteen Corp.**

OGDEN FOOD SERVICE CORP.

## Seeking new food accounts in recreation and travel

BOSTON—Ogden Food Service Corp. will be seeking new contracts "concentrating heavily on recreation and travel," according to H. William Whitaker, marketing vice president.

The company has already been awarded several substantial new recreation-related contracts, including The Forum in Los Angeles, where professional sports teams play, and the San Jose and El Paso Civic Centers, both of which were expected to open last month.

In travel, Ogden has expanded its airline food-service operations by obtaining the contract for in-flight feeding on American Airlines at Newark, N.J. Ogden also has contracts for New York flights of Air France, Swiss Air and others.

### Plans to Diversify

Whitaker said Ogden plans to expand its contract services to state and national parks, the managing of lodging facilities, and related services.

Within the last month Ogden began operating a tourist museum aboard a former World War II aircraft carrier, the USS Intrepid, docked in New York City. Ogden's contract covers operation of the museum, food service and security.

**R. Richard Ablon**
*Ogden president*

Another new venture for the com-

*(Continued on page 149)*

# NRN FOCUS

## CONTRACT FEEDERS

**Robert D. Flickinger**
*Service Systems chairman*

SERVICE SYSTEMS

### New accounts attract new sales

BUFFALO, N.Y.—Service Systems, the contract feeder owned by Del Monte, is currently experiencing some softness in sales due to the recession, but has acquired a number of new, prestigious accounts.

The softness in sales, said a spokesman for the company, varies from region to region. "We have not been as adversely affected as some of our competitors because we are in service industries where workers are not laid off as fast as they are in manufacturing industries."

Service Systems' January acquisition of Stouffer's Management Corp added 115 accounts.

**Acquisition**

In addition to the acquisition, the company has added a number of "blue chip company" accounts to its roster, many of which are full-service contracts that will act as showcases for further business. Each account includes services ranging from full-line cafeterias to executive dining and meeting rooms.

A company official said he feels Service Systems' "flex-pricing" system gives it advantages.

"Flex-pricing" allows the company to mark up menu items as commodity increases occur. The client, often subsidizing employee meals, can readily adjust the menu mix to keep his amount of subsidization in line with what is affordable.

THE MACKE COMPANY

### Electronic video games play role in company's future

CHEVERLY, Md.—The Macke Company, a contract feeder for businesses, industries, military installations and educational institutions, is "becoming more heavily involved in electronic games," according to Harry Conn, financial vice president of Allegheny Beverage Corp., the parent company.

"It's a form of vending, so under this operation we are purchasing more electronic games," Conn says.

In other areas, Macke's food-service expansion is likely to be limited to present geographical territories and the same kinds of accounts, says Conn.

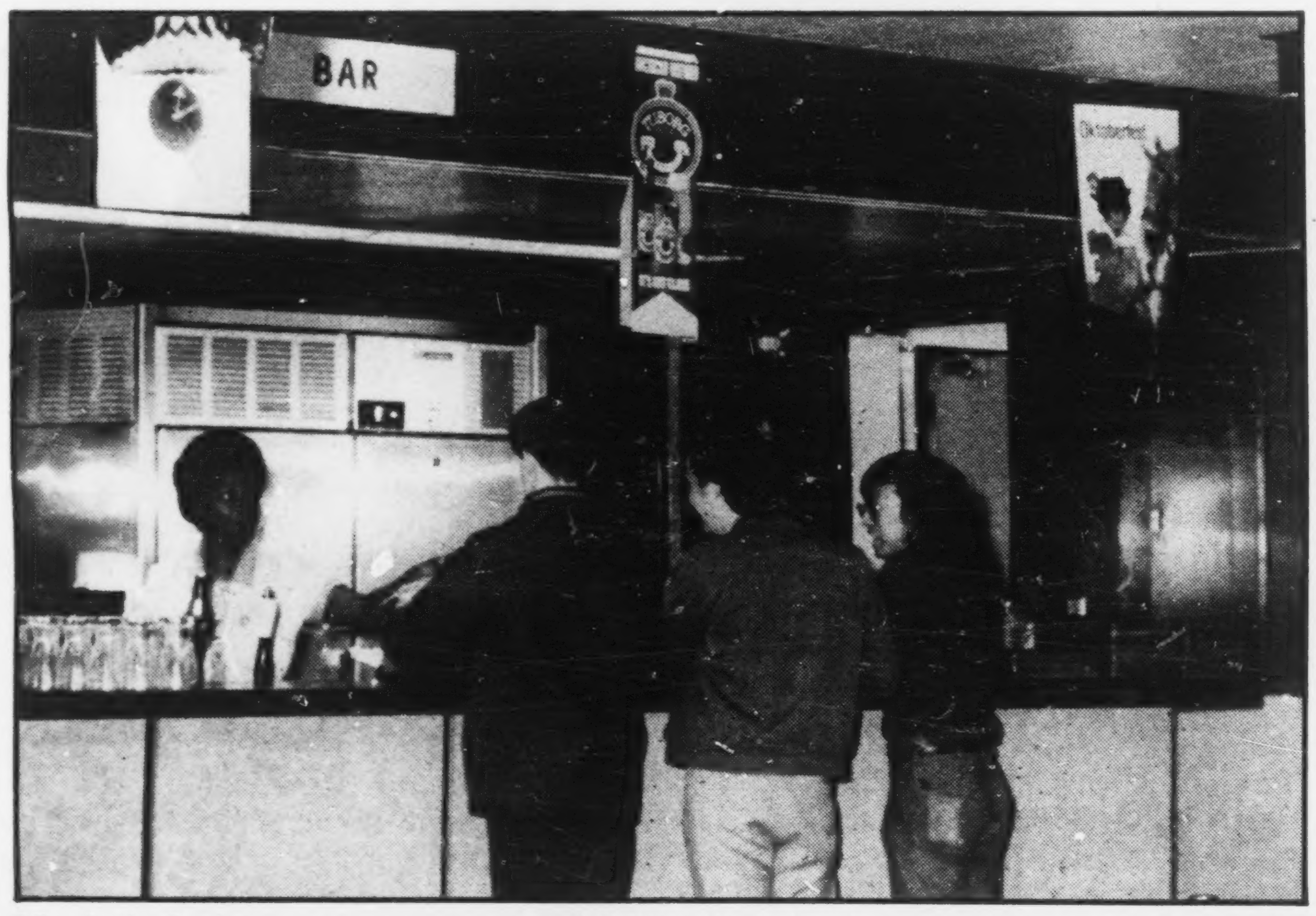
But he indicates Macke "could" move into states neighboring the ones in which it now has contracts. The company's 1,600 accounts are mostly concentrated east of the Mississippi River.

At present Macke has no plans to re-enter the restaurant field. It sold its unprofitable Family Fish Houses to Sea Galley Stores Inc.

Company officers maintained Macke's primary emphasis would remain food service, however. Conn said the company's design group was actively devising new concepts to bring the service more in line with client needs. For example, at one college Macke devised a fast-food concept for the dining area. "We found that the students liked it," Conn said, "It reminded them of their hometown McDonald's or Burger King."

Although a projection based on first-quarter sales ($53 million) indicates that 1982 will be much better than 1981 (when sales were $200 million), the company has been hurt by the recession, especially with accounts where the industries have curtailed operations. Macke must keep staff and equipment on hand to serve fewer people, which means reduced revenue and profits.

To cut down on costs, Macke has been using centralized purchasing to a greater extent. Conn said savings on supplies and materials were a "major contributor to profits."



**Macke's design group came up with this fast-food concept to meet the needs of one college's dining area.**

SZABO FOOD SERVICE

### Still seeking new clients despite major plant layoffs

OAK BROOK, Ill.—Szabo Food Service, a contract feeder with many industrial accounts, continues to be hurt by plant layoffs, but is aggressively seeking new accounts with businesses, leisure facilities and health centers.

Though the recession has affected Szabo, gross profit and revenue for the first half year were up, and company president David Hamilton is predicting a better second half.

Operating profit before interest, taxes and other expenses, was up 23% to 1.1 million for the period. Revenue rose 5% to $67 million.

Over the past year Szabo won contracts with businesses like IBM, The Chicago *Tribune* and Cincinnati Bell Telephone. It also added a major health-care client, The State University of New York Medical School Downstate Medical Center in Brooklyn, N.Y.

Szabo lost an estimated $2.9 million in potential revenues from Anaheim (California) Stadium during last summer's strike by Major League baseball players.

Hamilton says the company will continue to compete for clients in its current markets.

OGDEN CORP.

### Balanced businesses keep company on its feet

*(Continued from page 148)*

pany was its acquisition last year of the $25-million-a-year Offshore Food Service Co. of Louisiana, which serves about 110 oil and gas rigs in the Gulf of Mexico. Whitaker said Ogden is "looking for more of that type of business."

But, as Ogden continues to diversify its food-service accounts, it is gradually getting out of the restaurant business.

"We are divesting ourselves of individual restaurants and chains," Whitaker said.

In the past two years Ogden has sold its interests in the Nedick's fast-food chain in New York and the Doggie Diner chain in San Francisco. It still owns some Gleason's restaurants in Buffalo, however.

The recession has not severely affected Ogden, said Whitaker, because the company has "off-setting businesses." He explained: "When travel is down, theater sales are up."

During the past year the company named a new chief executive, R. Richard Ablon, who was promoted to president, replacing his father, Ralph E. Ablon, who retains the title of chairman of the board.

**J.C. Szabo, chairman (left) and David R. Hamilton, president**

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CHAIN ANALYSIS: PART II

*Menu and operational analysis—Pages 39-55*

Nation's
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# Tax bill spells disaster for industry

## AFL-CIO official joins opposition to Senate bill

WASHINGTON—On most legislative issues lobbyists for restaurant industry groups and organized labor are on opposite sides of the fence. For the past few months, however, representatives of the nation's restaurant workers and officials from industry organizations like the National Restaurant Association have been working hand-in-hand on a common problem: Senate Finance Committee Chairman Robert Dole's controversial employee tip reporting bill.

If anything, organized labor leaders have voiced even stronger objections to the tip reporting plan than restaurateurs, and one NRA lobbyist acknowledged that "much of the credit for blocking that provision belongs to the union people."

AFL-CIO Food and Beverage Trades Department president Robert Harbrant, the man who quarterbacked Labor's drive to sideline that tip reporting bill, isn't celebrating any victories yet, however.

"Senator Dole's substitute bill-cutting deductions for business meals is probably an even more serious threat to country's food-service workers than his original tip reporting plan," Harbrant told *Nation's Restaurant News*.

As long as that "1½ martini lunch" proposal is a live issue

(Continued on page 113)

## '1½-martini lunch' provision threatens $3 billion in sales

**By Ken Rankin**

WASHINGTON—Key segments of the restaurant industry were threatened with multibillion dollar revenue losses in the wake of Senate passage late last month of a $98 million, Republican-backed revenue bill. The bill, which includes provisions for slashing Federal tax deductions for certain business meals in half, could cost the restaurant industry almost $3 billion.

At presstime, food-service Government relations specialists were frantically lobbying members of a special House-Senate conference committee in a desperate, last-ditch effort to strip the "1½ martini lunch" provision from the final bill. (See Editor's Corner, Page 6).

Total U.S. restaurant sales from tax deductible business meals reached an estimated $5.9 billion last year, and "a 50% deduction would cause spending to drop by $1.7 to $2.9 billion," National Restaurant Association President John Dankos predicted.

In addition, Dankos maintained that the G.O.P.-supported cut would conservatively eliminate more than 60,000 restaurant industry jobs and force many food-service operators out of business altogether.

Although NRA lobbyists told *Nation's Restaurant News* they were optimistic that the conferees would bend to industry pressure and strip the controversial business meal deduction cutback from the final tax bill version, one industry legislative specialist acknowledged that "we won't be able to rest for a minute" as long as the politically sensitive revenue measure remains before Congress.

Ironically, Senate passage of the business meal deduction measure came only minutes after food-service lobbyists scored a stunning floor victory against Senate Finance Committee Chairman Bob Dole's (R-Kan.) employee tip reporting proposal.

For months now, NRA, the Food-Service & Lodging Institute, and lobbyists for the nation's unionized restaurant workers have been rallying Congressional opposition to Dole's plan to require employers to report employee credit card tip income direct to the Internal Revenue Service.

That concerted lobbying drive paid off during the marathon Senate floor showdown over the tax bill. Although other controversial provisions of

(Continued on page 113)

Merger awaits final approval

## Reynolds set to acquire Heublein

**By Joe Edwards**

WINSTON-SALEM, N.C.—KFC-parent Heublein and Del Monte-owner R. J. Reynolds, headquartered here, have agreed to a Reynolds takeover of Heublein for cash and securities.

The parties say they plan to combine Del Monte's food and beverages group with Heublein when the merger receives final approval.

Reynolds, the nation's leading manufacturer of cigarettes, agreed to acquire Heublein on July 29 in a cash and stock offer valued at between $1.3 billion and $1.6 billion. Reynolds total sales in 1981 were $11.7 billion; Heublein reported sales of $2.1 billion in fiscal 1982, ended June 30.

It will be perhaps as long as a year before all the pieces of the merger fall into place, according to a Heublein executive.

Reynolds, meanwhile, plans to appoint Hicks B. Waldron, Heublein's 57-year-old chairman, president and chief executive, to head the combined Del Monte-Heublein group.

"A special study group will be formed to determine the optimum methods for blending the elements of the two foods and beverages companies within the newly created RJR foods and beverages group," J. Paul Sticht, Reynolds chairman and chief executive, said. Waldron will report directly to Sticht.

Where this leaves Michael A. Miles, the senior vice president-foods of Heublein Inc., who is generally credited with helping reverse KFC's dismal performance in the mid-1970's, is uncertain.

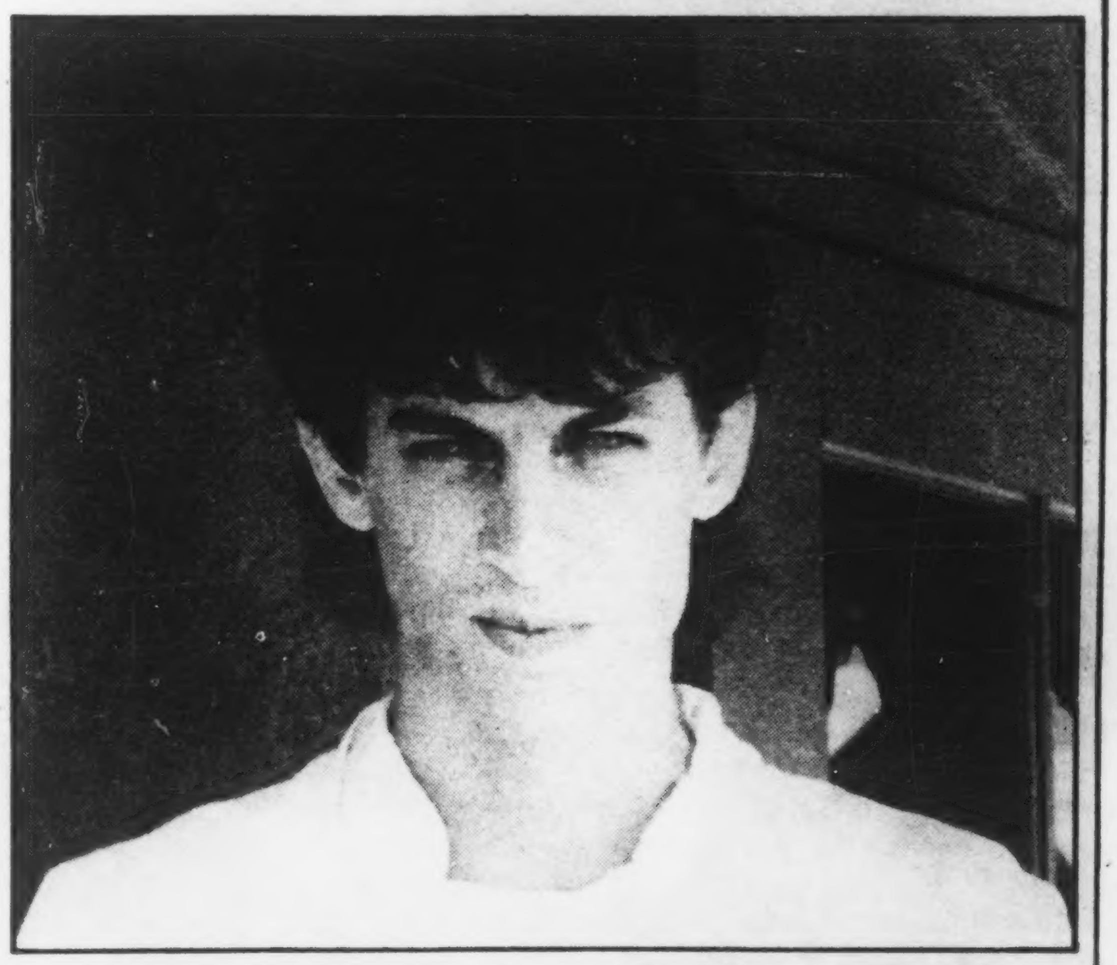
Miles is generally thought to be highly regarded at Heublein's headquarters in Farmington, Conn., and worked closely with Waldron on the KFC turnaround. In his present position, Miles oversees KFC's domestic and international operations and Heublein's grocery products businesses.

"Reynolds and Heublein are going to do nothing to disturb the winning combination put together down in Louisville," a Heublein executive said in reference to Waldron and Miles. KFC's headquarters are in Louisville, Ky.

Miles declined to comment on the proposed merger. Reached by phone at his Louisville office, he said: "Your best bet is to get in touch with the people in Farmington or the people in Winston-Salem [Reynolds home base]. I don't have any comment that they wouldn't make."

Heublein will continue to op-

(Continued on page 113)



**PROFILE: GREAT AMERICAN CHEFS**

**Nation's Restaurant News profiles Ken Frank, the 26-year-old owner-chef of the acclaimed La Toque restaurant in Los Angeles, as part of a continuing series on American-born chefs. Story appears on Page 11.**

## LATE NEWSBREAKS

**At a recent meeting in Knoxville, Tenn., the National Restaurant Association's executive committee voted in principle to sponsor the United States Culinary Olympics Team. The NRA board will approve the proposal next month. Kraft, which withdrew from sole sponsorship earlier this year, volunteered to participate in the funding. The Culinary Olympics are held every four years in Frankfurt, Germany. In 1980 the United States team won a gold medal in the hot foods competition. "The 1980 team taught us an important lesson," NRA president John Dankos said. "We must have an American team in Frankfurt in 1984." About 18-team members are being chosen at tryouts already begun in Philadelphia, Los Angeles and Chicago.**

**Jerrico, operator of 1,250 company-owned and franchised Long John Silver's fast-food restaurants, reported net earnings of $21.8 million for the fiscal year ended June 30, a 5% increase from the prior year. Revenues rose 13%, to $427.1 million.**

Expansion pace quickens

## U.S. fast food invading Europe

American fast-food chains, increasingly concerned with market saturation here, are stepping up expansion efforts in Western Europe.

By some estimates, the European fast-food market has now reached the $1 billion mark. And while just two countries, West Germany and Britain, account for more than two-thirds of that volume, American fast feeders are now expanding at a steady pace in other countries as well.

Earlier this year, PepsiCo's Pizza Hut, for example, formed a joint company with the British brewer, Whitbread, to put Pizza Hut pizza bars into some of the British company's 7,000 pubs and to convert some of them entirely to Pizza Hut restaurants. In less than two years, Wendy's has grown from zero units to about 25 in five countries, and expects to double that number this year. McDonald's and Kentucky Fried Chicken, the two American fast-food pioneers in Europe, continue to add to their lead.

For these and other American fast-food chains, Western Europe is a main target because of its relative political stability and changing attitudes toward American fast food.

"There's been a definite acceptance of American fast-food formats," said an analyst who recently completed a study on the European fast-food market. Added a Wendy's spokesman: "Europeans are getting accustomed to the convenience of fast-food concepts."

Among findings of the market study conducted by Dean Witter Reynolds analyst John

(Continued on page 113)

# Senate tax bill could spell disaster for industry

(Continued from page 1)

Dole's omnibus tax raising package sailed through the Senate, when the vote came on the tip reporting section at 4 a.m., critics of the proposal overwhelmingly rejected this provision by a 70 to 25 margin.

At that point, however, restaurant lobbyists snatched defeat from the jaws of victory.

Dole promptly offered a new "three martini lunch" amendment trimming the deductibility of business meals in half. The move caught industry and union lobbyists by surprise, and with no time to mount an opposition drive the Senate approved the meal deduction cut by a lopsided 57 to 40 vote.

Ironically, the "1½ martini lunch" provision represents a far more serious threat to the food-service industry than the original tip reporting scheme advanced by Dole.

When similar restrictions on business meal deductibility last came under serious consideration in Washington, NRA officials warned that reducing these deductions by 50% would create a near depression within the restaurant industry.

Although the version that passed the Senate last month is slightly less restrictive than the earlier Carter Administration plan—business meals consumed out-of-town at conventions and during business trips would continue to be 100% deductible—food-service leaders nevertheless predicted that the measure would have "dire consequences".

"The proposal would result in a dramatic cut in restaurant sales, some bankruptcies and massive loss of jobs," NRA's Dankos said.

Predicting that the lost food-service revenues resulting from the new restrictions could approach $3 billion annually, Dankos maintained that tablecloth operators in large urban areas would be particularly hard hit.

Restaurants "that operate in business areas and do a heavy breakfast and lunch trade may well be put out of business," he said. And since "the average restaurant operates on a 4% to 5% margin," such a massive drop in sales "will have a powerful effect on all eating places."

The impact of the legislation on food-service employment would be staggering, he added, predicting that "this provision will mean the loss of 63,000 to 107,000 jobs at a time of high unemployment."

In addition, NRA officials argued that much of the revenue increases resulting from the lower business meal deduction ceiling would be offset by tax losses and unemployment compensation hikes resulting from the decline in food-service employment.

According to Dankos, these losses will cost the Federal Treasury between $304 million and $506 million annually.

Although restaurant industry concern was riveted almost exclusively on the meal deduction issue at presstime, the massive tax reform bill approved by the Senate contains a number of other revenue raising provisions impacting food-service operators, including:

- A gradual phaseout of "small issue" Industrial Development Bonds—a move that could eliminate millions of dollars in tax-subsidized, low-interest construction financing;
- A three-year extension of the Federal Targeted Jobs Tax Credit program offering 50% wage subsidies to restaurants hiring workers from "targeted" population groups;
- Sharp increase in Federal unemployment compensation taxes as well as hikes in the tax rate on telephone services;
- An accelerated new collection formula for corporate estimated income tax payments, coupled with reductions in the maximum tax-deductible contributions to corporate executive retirement programs.

# AFL-CIO's Harbrant joins opposition

(Continued from page 1)

in Congress, Harbrant is likely to remain a strong ally of NRA and other restaurateur groups battling against the measure.

But the AFL-CIO official made it clear that he's ready to part company with food-service operators on other key legislative and regulatory issues.

The Reagan Administration's new proposal to relax Federal child labor restrictions on the employment of teenagers in restaurants is a case in point.

In contrast to NRA president John Dankos who praised the plan as a welcome relief for over-regulated restaurant operators, Harbrant termed the child labor revisions a "misguided" effort which is likely to "expose kids to hazardous working conditions".

"Given the current high unemployment rates across the country, relaxing Federal child labor rules to encourage more young 14- and 15-year-olds to seek work should be our last priority," Harbrant told *NRN*.

"With millions of people unable to find work of any kind, I don't see any justification for displacing even more older workers.

# Fast-food chains invade Europe

(Continued from page 1)

Weiss:

—Fast-food sales represent less than 3% of total commercial meals eaten away from home in Western Europe, and per-capita spending on fast food is only $3.50 a year. Thus, the market is still virtually untapped.

—About 220 fast-food outlets—including those owned by European-based companies—are expected to be added this year to the existing base of 1,250, an increase of 18%.

—While it's "still unclear" whether a meaningful fast-food market exists in suburban areas, there are "encouraging signs" that the suburbs hold potential for expansion, according to Weiss. One European fast feeder, G. B. Quick, for example, reports annual store sales of $1.5 million in France outside Paris.

By far the dominant fast-food factor in terms of sales is McDonald's, whose 300 units account for between 35%-40% of market share. KFC, with nearly 400 units but significantly lower volumes—most KFC stores are take-out only—holds a 13% share.

Some three-fourths of McDonald's restaurants in Western Europe are located in West Germany and England. McDonald's is said to be expanding aggressively in both, though it also has been adding in such countries as Austria, Denmark, Spain and France.

***FAST FOOD SALES BY COUNTRY (1980)***

| | Fast food sales ($ millions, chains only) |
|---|---|
| **Britain** | $506 |
| **West Germany** | 473 |
| **Belgium** | 50 |
| **Sweden** | 42 |
| **Netherlands** | 37 |
| **Switzerland** | 35 |
| **France** | 32 |
| **Spain** | 29 |

Source: Dean Witter Reynolds Inc.

In fact, there are now only three countries where no fast-food chains—United States-based or European—are operating, according to the study by Weiss: Italy, Portugal and Finland. But at least one, Italy, is showing signs that its populace would welcome the fast-food concept. A state-owned concern, Serio, earlier this year set up a fast-food outlet in Milan called Burghy, which specializes in American-style hamburgers, french fries, soft drinks and milkshakes. Competing restaurants are reportedly set to open as well. There have also been news reports McDonald's has been eying the Italian market.

Changes in lifestyle are one big factor why Italians are likely to embrace fast food. A recent poll in Milan showed that 60% now spend less than a half hour for lunch—a dramatic turnaround from the leisurely, two-hour or longer lunches that once were the norm in this Mediterranean country. And an increasing percentage of women are working and no longer have the time to prepare meals.

The United States fast-food formats in Europe are virtually identical to their American counterparts, both in operations and menu, though some concessions have been made to local lifestyles. Wendy's, for example, offers beer and wine in its eight German units, and stays open longer in the evenings because most Europeans eat dinner considerably later than Americans do.

***NUMBER OF RESTAURANTS BY COMPANY***

| | 1974 | 1981 | 1982* |
|---|---|---|---|
| **Kentucky Fried Chicken** | 260 | 380 | 420 |
| **McDonald's** | 12 | 300 | 370 |
| **Burger King** | 0 | 54 | 90 |
| **Wendy's** | 0 | 25 | 50 |

**Estimated*

Source: *NRN* Research

Sales in European stores are generally higher than in the United States, mostly because of higher menu costs. The average check at hamburger restaurants in Europe is said to be about $3-$3.50.

According to Weiss, sales results to date also "confirm that there is definitely demand in Europe for fast and relatively inexpensive food served in a clean, self-service format." But he added it's still not clear how rapidly demand is actually growing since "demand for fast food is somewhat exposure-induced."

United States fast feeders doing business in Europe face other challenges as well.

For one thing, construction costs are considerably higher than in the United States. Investment in land, building and equipment for a new McDonald's in Germany last year was said to be at least $1 million compared to less than $800,000 in the United States. In addition, a number of municipalities continue to place severe restrictions on where units may be built.

Store margins are also lower than in the United States both because of higher-labor costs and steep rentals and because of restaurant network start-up costs in general. The store level margins of European McDonald's, for example, were reportedly 7%-9% in 1981, compared to 17.5% in the United States.

Anti-American sentiment is said to be another factor influencing sales, though its effect is not considered significant.

# Reynolds to acquire Heublein; merger awaits approval

(Continued from page 1)

erate from its Connecticut base; KFC from Louisville, Ky., and Del Monte from San Francisco, Sticht said.

Food and beverages accounted for about 20% of Reynolds Industries sales in 1981 but only 6% of its $768 million profits. In recent months, Sticht has expressed interest in reducing Del Monte's dependence on canned goods and expanding into processed foods. Reynolds acquired Del Monte in 1979.

In addition to domestic and foreign cigarettes, Reynolds is involved in containerized shipping (Sea-Land), oil and natural gas (Aminoil USA) and packaging. About 51% of sales comes from tabacco products.

Heublein acquired KFC, the nation's leading fast-food chicken chain with about 6,200 units worldwide, most of which are franchised, about 10 years ago. About 40% of Heublein's total sales comes from restaurant and grocery products sales.

Analysts who follow Heublein and Kentucky Fried Chicken reacted favorably to the merger news, with several noting that Reynolds had cash to pour into KFC for expansion purposes. Carl De Biase, who heads *Restaurant Industry Trends*, though, called it a "nonevent" as far as KFC is concerned.

One Heublein executive speculated about an infusion of cash from Reynolds into KFC. "We've got a lot of places to build a lot of stores," he said. "It's the easy way to gain market share."

KFC is known to be interested in boosting market share on the East Coast, particularly in the Boston-to-Washington corridor where 22 million persons live and where KFC is surprisingly under-represented among leading fast-food chains.

A few months ago, KFC agreed to purchase about 70 Gino's restaurants in that area from Marriott Corp. Marriott acquired Gino's and plans to convert many of the units to its own Roy Rogers concept and sell off the rest.

"That territory would accommodate 400 more [KFC] stores," the Heublein executive said. "We're interested in building new stores and expanding through franchising."

As part of its agreement to purchase the Gino's restaurants, KFC acquired the master development rights for New Jersey, Maryland, Delaware, Washington, D.C., and parts of Virginia and Pennsylvania. (Gino's is a KFC franchisee and sells chicken products in KFC units and at its own burger restaurants.)

Miles has characterized KFC's move into the Atlantic Coast States as "the first really serious KFC development in that area."

The industry will be watching closely to see how KFC performs under Reynolds' ownership. In the last 10 years there have been a number of less-than-impressive performances by chains acquired by large diversified corporations with no experience in the food-service industry, notably Sambo's (GDV Corp.) and the W. R. Grace restaurants.

Much of the acquisition action taking place in the last two years has been by food-service companies buying smaller chains for the sites or to add new concepts to their lineups.

In its bid for Heublein, Reynolds made a cash tender offer for 11.35 million shares, or approximately 52%, of Heublein's outstanding stock at $63 a share. The remaining Heublein shares would be exchanged for a combination of Reynolds common and a new issue of Reynolds preferred stock at a per share value of about $57.

As rumors spread on Wall Street a few hours before the merger was disclosed, Reynolds stock fell a few points and Heublein and General Cinema Corp. stock rose a few points.

General Cinema, a leading movie theater chain and soft-drink bottler, has been buying Heublein stock since late last year and now owns about 18.9% of Heublein. General Cinema's reported interest in acquiring all or part of Heublein has not pleased Heublein executives.

Heublein, in turn, has purchased about 3.5% of General Cinema stock and earlier this year said it planned to purchase another 46.5%. Heublein also filed suit against General Cinema charging it with "an illegal attempt to gain control" of Heublein.

The Reynolds-Heublein merger would result in a company with about $14 billion sales, based on 1981 figures. Kentucky Fried Chicken would account for about 5% of the total.